In the name of Allah
the most
Compassionate and Merciful

The Center for the Publication of
the U.S. Espionage Den's Documents
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Central Intelligence Agency (C.I.A.) had embarked on preparing a situation report on economic, technical and military aids rendered by communist states, especially the Soviet Union to the less-developed, non-communist, third world, countries. On the same basis, the agency distributed certain questionairs to U.S. embassies around the world. On a specified date, it collected the completed questionairs and printed them inti quarterly publications. At the end of every four year period the publications were bound in a single volume entitled "Communist aid activities in Non-Communist less-developed countries".

The present collection deals with the year 1978 and includes 4 reports that were published on a 3 quarterly basis for that year. It should be noted that we have translated one of these reports' introductions (third quarter 1978, on China) because it was deemed the most important, while the entire original document was printed. By providing enough data, the report is an attempt at demonstrating part of the foreign policy and ultra-territorial connections governing the ties between the communist and third world countries.

Although it comprehensively touches on the functions of U.S. capitalism's main competitor we believe its investigative and non-propaganda nature makes it a useful guide to be studied by third world scholars and observers.

U.S. Postures and Interests:

All exploited countries agree in principle that both superpowers' efforts are mainly directed at plundering the financial and manpower resources of the rest of the world. Ideological justifications or political games can no longer deceive the world's nations, because for centuries, they have witnessed the aggressive policies of the superpowers.

Both of today's superpowers' greed for "Power" and "Self-interest" urge each one of them to try to monopolise the globe and prevent the other from being a partner in the wealth which has resulted from their plunderings. The two powers' war manifests itself in the form of competition because the existance of one competitor threatens the foundations of the other oppressive power by nature.

The second category applies to the period which began with the Bolshevik government's efforts to establish itself over the white Russians and the rest of the anti-Bolshevism forces by adopting long term internal and external policies (1921), up to the present which manifests the soviet foreign policy as an odd ammalgamation of ideological reasoning and so-called "national interests". Further clarification of the subject matter and the circumstances upon which the basis of this policy is exercised will determine the priority of one over the other.

One of the most prominent turning points in the Soviet Union's foreign policy after Lenin's death, undoutedly dates back to the Second World War. In this period, the red-army, which enjoyed a certain-superiority in W W II, succeeded in obtaining the co-operation of a number of

communist elements within the European countries thereby expanding communist domination out side the borders of the Soviet Union.

The most important points that attract the attention of this collection's readers are the comprehensive quality of informations gathered by Americans and their extra-ordinary activities in obtaining these informations on the activities of their rival power. Our purpose, of course, is not to examine the American's information gathering ability in this paper, but rather our major goal is to scrutinize the ways through which enormous financial and manpower resources are allocated to check the moves of its rival. Meanwhile by checking into Soviet strategy and policies, Americans prepare themselves to take due and timely measures in response to Soviet-instigations within the third world countries.

The Soviet Union's Foreign Policies:

The Soviet Union's foreign policies can be divided into two categories: The first was applicable to a period between October 1917 and the end of the Civil War, when foreign instigations were merely inspired by marxist teachings and did not emanate from a politically stabilized Soviet Society.

The increased number of states in the eastern-block on the one hand, and the prepared ground for rivalry and expansion of power bases under the guise of "national interests" on the other, lead the Soviets to the conclusion that they could have expanded co-operation with the third world's underdeveloped countries (if labelled as "Bourgeoise-democratic" states). This marks the beginning of Soviet-Russia's all out effort to break the barrier of isolution imposed on it by the world of capitalism and embark on a power play utilizing its presence in other countries. This move was sparked by the clear evidence that despite marxist analyses, there was no way capitalist countries would embrace communism. As it was said, this change was not something new in the communist's foreign policy, and they were unable to perpetuate Bolshevik policies to protect "national interests" in the outside world, but the Second World War prepared the opportunity for such an important move.

The official recognition of peacefull co-existence by the Khrushchev administration, which also dates back to Lenin's period, provided the Soviets with an opportunity to launch extensive and close co-operations with almost all of the world's countries, followed by an ideological justification. In justifying this policy, it was argued that effective Soviet intervention in the form of technical, economic and military co-operations would be a mean for changing the structure of non-communist countries. Structural change, even at a slow pace, was considered to be a positive step in steering the world towards socialism and communism, while the Soviet presence in underdeveloped countries guaranteed the protection of its "national interests".

Characteristic of the Soviet Union's aid Policy:

The Soviet Union is currently active in the international arena as a powerful state which is in close competition with America, while its characteristes as a superpower and an oppressor have vastly expanded its undifinable "national interests".

Soviet aid usually covers projects in the public sector and its emphasis on such projects is mainly aimed at publicizing the humanitarian side of these efforts. Some huge investments have also been made in certain countries which inspite of their status as guarantors of the Soviet Union's political, economic and propaganda interests, have become stages of "Technical" and "Financial" competition between the Russians and its western rivals.

According to existing documents, the Soviet Union had allocated 3.7 billion dollars in economic aid for fiscal year 1978, which was for the first time almost equal to the U.S. foreign aid budget (U.S. aid was about 4.5 billion dollars for that same year). A major portion of this Soviet aid was extended to countries that were of clear western-inclination. Ideological justifications and deceptions had made it suitable for expanded co-operation between the Soviet Union and Turkey, Morroco, and (pre-revolution) Iran while paying no heed to the fundamental principles of Marxism-Leninism. Its ties with Iran and Turkey could probably be referred to as "good neighbourly-ties" based on a "neighbourly" policy, while Marxist-Leninist texts have not clearly defined such relationships, but the Soviet investments in Morrocan phosphate mines can not be interpreted as anything other than intense Russian "Profiteering".

Less Developed Countries' Positions and Conditions:

Among the less developed countries, Morroco has absorbed the bulk of Soviet aid project funds and the latter's 2 billion dollar, 30 year term investment in Morroco's phosphate mines has resulted in the signing of the most "Profitable Contract" for the Soviet Union.

There was a time when Kremlin-Leaders used to evade the establishment of any ties with the oil producing Persian Gulf littoral states and claim that instead of being a partner to such relationships, they would rather devour a few pounds of salt.

But a decade after that policy attitude was announced, we witness the ever increasing effort and interest on the part of the Soviets in establishing political and economic ties with Morroco, Saudi-Arabia, Kuwait and etc. Such postures clearly demonstrate the closeness of the two camps of the east and the west while proving that their goals and structural natures can not be differentiated from one another.

Rapid governmental changes in some of the less developed countries in early 1978, paved the way for the Soviet Union's economic and military diplomacy in the third world. In Afghanistan, a coup d'etat brings

to power a Soviet puppet government, and the Soviets increase their economic and military presence there, pretending that they are assissting the new and inexperienced regime to strengthen its power base. This coincides with a coup d'etat by pro-Moscow Marxists in June that brings South Yemen under the increased control, of the Soviet Unions, South Yemeni supporters.

Despite a number of major arms and economic deals with the above mentioned countries as well as a number of other less developed states, communist military agreements concluded from 1975 to 1978 reached their lowest level. The Soviet blame a number of factors for the decrease but most of them are merely considered as losses sufferred by the Soviet Union and its satellite states in competition with their western rivals. Purchaser countries' needed to absorb arms procured in 1976-77, a loss of other customers as well as the dwindling attractiveness of Soviet-made weapons are said to be among the major factors. The U.S. believes that there were three reasons why the Soviets lost their customers and Soviet weapons lost their signifeance: The first, is a lack of Soviet willingness to give considerable discounts for weapons purchases because of internal economic problems non-provision of spare parts, and the poor quality of delivered weapons and equipments.

According to the Americans, the second reason is attributed to superior technological and marketting capabilities as well as better maintenance services provided by the west, that allowed them to penetrate the Soviets' traditional market bases such as Iraq, India and Syria, and eventually dominant those markets; The third reason relates to position changes by the purchasing countries dictated by world political events which prompted them to diversify their arms sources. Finally, these arguments lead one to conclude that western countries, especially the U.S., France and England are superior in their long-range strategy plans then the Soviet Union based on the former's innate common characteristics of "Profiteering" and "Power-Seeking".

The greatest move of the Soviet's traditional sympathizers towards the west began in 1978. Iraq which was once thought of as being able to play the role of Nasser's Egypt, for all arabs, prompting even Soviet officials to label it as "a more progressive state", negotiated extensive trade and arms agreements with the west especially France. Because of the western affiliated and rich arab aid donors and their preference for western manufactured arms, Syria too has become inclined to diversify its military weapons systems. On the basis of a similiar penchant, India too has stepped up its efforts to diversify its own military and industrial systems.

In Africa, besides Lybia and Algeria, which are the main sources of foreign exchange revenue resulting from commercial co-operation as well as weapons purchases for the soviets and their communist allies, Angola and Ethiopia in the Horn of Africa are also significant due to those countries' marxist governments and their dependence on the Soviet Union's military advisory and economic aid activities. In addition, because of

the never ending wars and conflicts inside and outside of their territories, they have turned into major recipients of Russian arms and assistances. (Their (L.A.A.E) status and the Siviet and other communists' presence in Africa are similar to the status of Afghanistan in Asia).

Other Communist Countries:

Just as the U.S. co-acts with its allies in strengthening its influence bases in the less developed countries, the eastern block and Cuba collaborate with the Soviet Union to prepare ground for their own influence throughout the world. Russia, like its rival, has prepared a preliminary plan of its measures and activities necessary to implement its particular strategies. For example, in the first stage, Cuba dispatches military advisors to trouble-stricken countries and if necessary takes part in construction projects to earn the foreign currency it needs. East-Germany and Czechoslovakia, because of their respective industrial structures, supply machineries and technological requirements called for by co-operation agreements. Therefore each of the eastern block members acts independently to satisfy its national interests and currency needs, and plays an important role in materializing these goals through economic and military co-operations.

China is of special significance among communist states. Until Stalin's era, China considered Russia as the pioneer in the communist world, but since Khrushchev's time, it has denounced "Peaceful-Coexistance" as a major deviation from Marxist-Leninist principle, thereby differentiating Chinese foreign policy from the Soviet Union's. But today, after almost three decades, we see that China, has adopted "Co-existance" as a "principle in its own foreign policy" strategy.

Even though it had accused the Russians of having committed an unforgivable sin. At any rate, China is trying to assume the role of leader of the less developed countries. Establishment of ties with the poorest countries as well as attempts at competing with Russia, or trying to take control of countries such as Sudan and Somalia, have been of the bases of China's recent extensive moves. China's attempts to be recognized by the international community in the 1970s was coupled with unprecedented aids rendered to the wrd world and economic programs void of any ideological content were adopted as the main foreign policy tool in China's struggle to take over as the dominant partner of the less developed countries. Power plays between Radicals and Moderates in 1974 brought about a declining trend in China's economic aid programs. But when moderates (such as Hoa Ku Fung) came to power, they reiterated the implementation of China's foreign policy vis-a-vis the poor countries, and further announced Chinese readiness to extend economic aids to states that would adopt policies contravening the Soviet Union's, in a bid to consolidate, its position among the less developed countries.

America's implicit recognition of the nature of military and economic aids extended by the superpowers to the less developed countries is one intersting point one comes across, in the section appropriated to

China.

The document reads in part "China's reputation among poorer nations as an aid donor is unmatched. The provision of well-balanced aid packages which effectively promote both economic and social development has enabled China to escape criticism often leveled against other communist and western programs for ignoring basic human needs. Even when small in sice, Chinese aid packages have allowed for improvement of welfare and productivity while attacking basic deficiencies in infrastructure and agriculture. Chinese skills and technology have been particularly pertinent to the poorest LDCs... Chinese economic aid always has been directed toward the development of infrastructure, primary industries, and agriculture." In their analyses, the Americans have focused on certain points and stressed the so-called humanitarian aspect of China's foreign aid program as well as the repayment terms most suitable for the poorest of countries, thereby demonstrating positive traits that are lacking in aids extended by the U.S. from the oppressive powers' cultural standpoint, economic aids are exploited for the aquisition of concessions. Sale of commercial commodities followed by an economic and trade boom for the so-called aid-donor countries. Sale of armaments after gaining military concessions followed by penetration into the purchaser states' military structures; turning the purchaser countries into military bases for their own purposes; the encouragement of a materialistic culture coupled with an exportation of consumer goods and economic assisstance; influening the aid-recepients' vote in the international forms are all clear examples of such concessions. Finally, the aid recepient countries are turned out to be fully dependent in the economic, military and political fields in addition to a foreign cultural identity which changes their own humanistic cultural natures that are exploited for the realization of oppressor states' goals and objectives.

"The Muslim Students
following the Line of the
Imam"

February 1985

National
Foreign
Assessment
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NOFORN-NOCONTRACT

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AMB			
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Econ		6	
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Communist Aid Activities in Non-Communist Less Developed Countries 1978

A Research Paper

Secret

ER 79-10412
August 1979

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	NOCONTRACT (NC)	Not Releasable to Contractors or Contractor/Consultants
	PROPIN (PP)	Caution—Proprietary Information Involved
	NFIBONLY (NO)	NFIB Departments Only
	ORCON (OC)	Dissemination and Extraction of Information Controlled by Originator
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Communist Aid Activities in Non-Communist Less Developed Countries 1978 (U)

A Research Paper

Information available as of 15 March 1979 has been used in the preparation of this report.

This paper was prepared by Carol Fogarty of the Office of Economic Research. Questions and comments are welcome and should be directed to Ms. Fogarty on 351-5291. (U)

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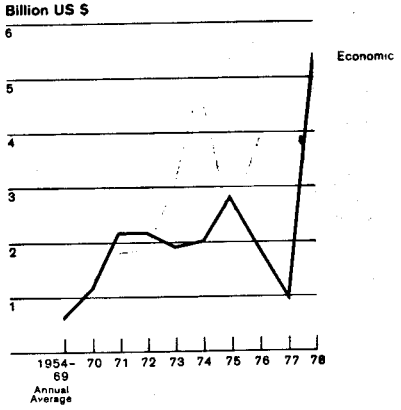
ER 79-10412
August 1979

Figure 1: Communist Countries: Economic and Military Agreements With LDCs



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Communist Aid Activities in Non-Communist Less Developed Countries 1978

Overview

Communist economic and military aid [1] to the Third World in 1977-78 was marked by some of the widest fluctuations in the quarter century history of the program. Military *pledges*, which had risen to an all-time peak of $5.7 billion in 1977, plummeted to $2.3 billion in 1978, while the $5.4 billion in economic aid pledges in 1978 broke all previous records (see figure 1). Meanwhile, both military and economic *deliveries* to the Third World continued at a strong pace in 1978 because of previous commitments. The USSR continued to dominate practically all aspects of the Communist aid program—for example, the selection of recipients and provision of resources. (U)

Annual pledges of the Communist countries have swung up and down around the rising trend line because of: (a) rapidly changing political conditions in recipient countries, which affect the attitudes of both donor and client, and, in the case of military aid, lead to highly volatile requirements for emergency and resupply operations; (b) the long periods required for implementing economic aid and for absorbing military equipment into the inventories of less developed countries (LDCs); (c) the prolonged negotiations required for completing economic and military agreements and the consequent lack of an annual rhythm in signing these accords; and (d) economic or political constraints within the Communist countries themselves, which affect the scale and distribution of aid commitments and deliveries. (C)

Whereas previous downturns in Soviet arms sales proved temporary, the present drop may reflect political/economic factors that could have a large lasting impact. If so, the USSR will experience a palpable future decline in both political/military influence in certain countries and in hard currency earnings. The plunge in Soviet sales to major Middle Eastern clients was largely responsible for the 65-percent decline in 1978 sales. Iran, Iraq, and Syria—whose combined purchases have averaged close to $1.5 billion annually in 1973-77—failed to sign major new agreements in 1978, and sales to Algeria, India, and Libya were far lower than before. These losses were not offset by the large arms purchases of Ethiopia and Afghanistan, which together totaled over a billion dollars. (S)

[1] The term *military aid* as used throughout this paper includes commercial sales of military equipment and services as well as sales on concessionary terms.

The steep decline in Soviet arms sales in 1978—and their failure to rebou in the first six months of 1979—is associated with (a) the growing access important Soviet arms customers to the Organization of Petroleum Exporting Countries (OPEC) funds, which gives them the option to place more of their orders in the West (these customers often prefer Western equipment because of its reliability and the availability of servicing and spare parts); (b) the growing interest of important Soviet arms customers diversifying their purchases with India, Iraq, and Syria, recently placing major arms orders in the West; and (c) the loss of some potential custome for political reasons—for example, Egypt and Iran. Thus, in the two years since mid-1977, the LDCs have turned to Western suppliers for more than $ billion in arms orders that Moscow could have reasonably expected to receive under earlier circumstances. (s)

In 1978, for the second consecutive year, Soviet military sales to Ethiopia accounted for 40 percent of the total. Another 40 percent went to Afghanistan, Algeria, and India. South Yemen and Libya topped the remaining 11 arms customers. (s)

Soviet military *deliveries* hit a record $3.8 billion in 1978, as Moscow worked off massive orders placed earlier, notably by Ethiopia. The deliveries, which continued to cover Moscow's large annual trade deficits with LDCs, represented roughly 10 percent of Moscow's hard currency earnings. First time deliveries to LDCs included: MIG-25 jet fighters to Algeria and Libya, IL-76 transports to Iraq, and MI-24 helicopters to Algeria, Iraq, and Libya. (s)

The number of Communist military-related personnel in the LDCs rose by percent in 1978, to 52,000, largely because of a 16,000 increase in Cubans sub-Saharan Africa. (U)

In contrast to the military program, two record-size credits—$2 billion to Morocco and $1.3 billion to Turkey—pushed the Soviet economic *commi ment* up to an unprecedent $3.7 billion in 1978. Extensions of East Europe economic aid reached a record $1.5 billion, with East Germany at the forefront. The Chinese followed their recent economic aid pattern—extending less than $200 million in aid and concentrating on labor-intensi projects, in which they have posted an enviable record. (s)

Bread-and-butter considerations continued to loom large in both Soviet a East European economic aid programs in 1978. The most dramatic examp was the Soviet credits for the development of phosphate mining in Moroc in return for which the USSR is to receive about 10 million tons of

phosphates a year for 30 years—at a time when the USSR's own deposits will become more difficult and costly to exploit. Another long-term Soviet commitment of $1.3 billion to Turkey will provide assistance for expansion of steel and aluminum plants and for erection of power plants and a new refinery. Both of these sizable credits were extended under "framework" (nonbinding and open ended) accords, which have characterized much of the Soviet aid to LDCs of the past few years. The phosphate development agreement follows the pattern of other recent Soviet moves to supplement domestic supplies, for example, for bauxite, alumina, oil and gas, iron ore, and tin. (S)

For Eastern Europe, and to a lesser extent, the USSR, nonmilitary technical services may become a big hard currency earner in the 1980s. Nearly 108,000 Communist technicians were in Third World countries in 1978, compared with an estimated 24,000 in 1970. East Europeans made up 40 percent of the total. Communist technicians were concentrated in the oil-rich states, with a growing number employed under commercial contracts as administrators, doctors, and construction workers. These technicians earned approximately $500 million for Eastern Europe in 1978 and perhaps $150 million for the USSR. (U)

Contents

	Page
Overview	iii
Preface	ix
The Military Aid Program: Sales Off, Deliveries Up	1
Costing Communist Arms	2
Patterns in 1978	3
Commercial Returns From Program	5
Military Technical Services at New Height	5
The Economic Aid Program: In High Gear	6
USSR: Record Year for Aid	7
Eastern Europe: Search for Commercial Gains	9
Aid Program: Yield to the Soviets	9
Technical Services: Largely a Cash-Flow Program	11
Technical Training: A Growing Effort	13
Academic Students: A Low-Cost Investment	13

Appendix

Country Sections	15
North Africa	15
Sub-Saharan Africa	19
East Asia	32
Latin America	35
Europe	41
Middle East	42
South Asia	52

Tables

1.	Communist Military Transactions With LDCs, 1978	2
2.	USSR: Arms Sales and Deliveries to LDCs in Soviet Export Prices and US Costs of Production	3
3.	Communist Military Personnel in LDCs, 1978	6
4.	Military Personnel From LDCs Trained in Communist Countries, 1978	6
5.	Communist Economic Aid Extended to LDCs, 1978	8
6.	Communist Economic Technicians in LDCs, 1978	12
7.	LDC Academic Students Being Trained in Communist Countries as of December 1978	13

Figures

1.	Communist Countries: Economic and Military Agreements With LDCs	ii
2.	Communist Military Agreements With and Deliveries to LDCs	1
3.	USSR: Hard Currency Sales as a Share of Total Military Sales to LDCs	5
4.	Communist Economic Agreements With and Deliveries to LDCs	7
5.	USSR: Aid to LDC Metals and Minerals Industries as a Share of Total Aid	10
6.	Africa: Communist Agreements With LDCs, 1978	14
7.	East Asia: Communist Agreements With LDCs, 1978	32
8.	Latin America: Communist Agreements With LDCs, 1978	36
9.	Middle East: Communist Agreements With LDCs, 1978	42
10.	South Asia: Communist Agreements With LDCs, 1978	52

Preface

This review of Communist aid to the LDCs in 1978 is one of a series dating back to 1956. The subject was covered until 1974 in the annual R-14 report series, *Aid and Trade Activities of Communist Countries in Less Developed Areas of the Free World*, prepared under the aegis of the Subcommittee on International Trade and Aid of the Economic Intelligence Committee, USIB. The subcommittee was abolished effective 1 October 1974. The annual report is now issued by the Office of Economic Research of CIA's National Foreign Assessment Center. (C)

In addition to giving detailed information on developments in 1978, this report updates analytical interpretation and revises data in previous annual reports. Highlights of trade developments also are included. The values for Communist military agreements and deliveries are expressed in Soviet trade prices—the actual prices we estimate Communist countries charge LDCs. Statistical data on Communist-LDC economic and military aid in 1978 were published under separate cover as a reference aid, ER 79-10160, *Communist Aid to Less Developed Countries, 1978*, March 1979, Secret Noforn. The handbook does not contain Communist-LDC trade data. Such information will be issued separately as it becomes available as a supplement to the quarterly reports on *Communist Aid and Trade Activities in Less Developed Countries*. (C)

The term *Communist countries* refers to the USSR, the People's Republic of China, and the following countries of Eastern Europe: Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania. Included in this edition also are data on Cuban, North Korean, and Yugoslav aid to and personnel present in LDCs. (U)

The term *less developed countries of the non-Communist world* includes the following: (1) all countries of Africa except the Republic of South Africa; (2) all countries of East Asia except Hong Kong and Japan; (3) Malta, Portugal, and Spain in Europe; (4) all countries in Latin America except Cuba; and (5) all countries in the Middle East and South Asia, except Israel. Kampuchea, Laos, and Vietnam, which became Communist countries in 1975, are reported on for prior years for historical reasons. (U)

The term *extension* refers to a commitment to provide goods and services either on deferred payment terms or as grants. Assistance is considered to have been extended when accords are initialed and constitute a formal declaration of intent. The term *drawings* refers to the delivery of goods or the use of services. (U)

The term NEGL refers to a value of less than $500,000. NA indicates an agreement was signed, but the value was not known. Three dots (. . .) indicate that either no agreement is known to have been signed or no personnel are believed to be present. (U)

The substance of this report has been coordinated with the Bureau of Intelligence and Research of the Department of State, the Defense Intelligence Agency, and the Agency for International Development. (U)

Communist Aid Activities in Non-Communist Less Developed Countries 1978 (U)

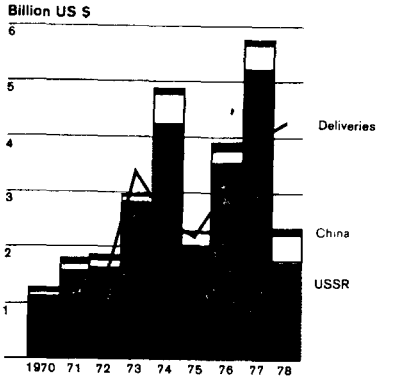
The Military Aid Program: Sales Off, Deliveries Up

Soviet military agreements fell to $1.8 billion in 1978 from a record $5.2 billion in 1977 and an average of about $3 billion a year in 1973-76 (see figure 2 and table 1). At the same time, deliveries rose to $3.8 billion from $3.5 billion in 1977 and scored again as Moscow's most important export to the Third World. They were bolstered by the billion dollars of deliveries to Ethiopia, a peacetime record for Soviet arms shipments to an LDC. (S)

Because of the slide in new Soviet agreements and near-record Chinese ($91 million) and East European ($463 million) sales, the USSR failed to maintain its usual 90-percent share of Communist arms aid to LDCs. Sales by East European countries, however, continued to complement Moscow's programs, with about two-thirds of their equipment sales (largely trucks, ammunition, and support) going to major Soviet clients—Algeria, Iraq, Libya, and Syria. The USSR also lost its rank as the second largest worldwide arms seller, with the United Kingdom and France as runners-up behind the United States. (S)

As in 1977, Moscow's most decisive supply action was in the Horn of Africa. Ethiopia, still in an early stage of its equipment cycle, accounted for more than 40 percent of Soviet sales, with Addis Ababa buying a second squadron of high-performance MIG-23 fighters, hundreds of tanks, armored personnel carriers, heavy artillery, and large tonnages of ammunition and support equipment. The $750 million in new agreements with Ethiopia raise the total value of the three-year Soviet military supply program in Ethiopia to more than $2 billion, six times the value of assistance provided neighboring Somalia during Moscow's 16-year relationship. Some 1,300 Soviet and 16,500 Cuban technicians performed training and maintenance functions in Ethiopia to ease the absorption of the billion dollar delivery of modern armaments into Ethiopian inventories, and Addis Ababa sent almost a thousand military personnel to the Soviet Union for training. (S NF)

Figure 2: Communist Military Agreements With and Deliveries to LDCs



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Another 40 percent of Soviet sales in 1978 was concentrated in Afghanistan, Algeria, and India, countries that had traditionally accounted for 20 percent of Soviet sales. The agreements with Afghani-

Table 1

Million U

Communist Military Transactions With LDCs, 1978

	Agreements			Deliveries		
	USSR	Eastern Europe	China	USSR	Eastern Europe	China
Total	**1,767**	**463**	**91**	**3,825**	**325**	**55**
Afghanistan	275	18	...	45	...	...
Algeria	236	100	...	385	50	...
Angola	26	48	...	85	30	...
Egypt	13	9	52	5	5	10
Ethiopia	750	10	...	1,000	15	...
India	215	...	...	215	...	...
Iran	...	50	...	NA	NEGL	...
Iraq	1	33	...	610	45	...
Libya	81	54	...	785	100	...
South Yemen	75	2	...	135	NEGL	...
Syria	9	111	...	310	35	...
Other	86	28	39	250	45	45

This table is Secret Noforn.

stan provided the fledging Marxist regime with a record $275 million of sophisticated aircraft, probably on the same easy credit terms typical of other Soviet accords with Kabul. The $235 million commitment to Algeria and $215 million to India complemented and supported Soviet-supplied equipment holdings acquired by those two countries in the past several years. The Soviet-Indian accord will expand its licensing rights for assembling and producing advanced MIG-21 jet fighter aircraft. Algeria became the second Third World country to receive MIG-25s, some of which were delivered during the year. Algeria also took delivery of MI-24 helicopters, sharing with Iraq the Soviet's first deliveries of these combat assault helicopters to the Third World. Other first time Soviet deliveries included IL-76 transports to Iraq. (S NF)

Among the remaining 11 countries that together placed $290 million of orders for Soviet arms in 1978, Libya received $80 million, followed closely by South Yemen, reflecting Moscow's early move to support the new radical Marxist government. Air and naval facilities offered by Aden in exchange for the MIG- and T-62 tanks will help offset some of the loss of Soviet accommodations in Somalia. A $55 million agreement with Madagascar for MIG-21s, training and technical assistance was that country's largest military accord ever signed with a foreign supplier. (S NF)

Costing Communist Arms

The values used throughout this paper for Commun arms sales and deliveries are expressed in Soviet exp prices—ruble prices (translated into dollars at the prevailing exchange rate) that we estimate Commu countries charge LDCs. These prices are used in all aid and trade publications because they are appropr ate for (a) comparing Communist military sales to LDCs from year to year, (b) looking at arms exports a share of total Communist exports, and (c) estima the size of LDC debt to Communist countries and it effect on LDC balance of payments. Values used in

puting these export prices are derived from price for Soviet equipment (constructed from a variety sources), which are continually updated and adjusted for changes in the dollar value of the ruble used in foreign trade transactions. Research presently under way may affect future estimates of military export costs (especially ordnance and maintenance support including: spare parts, supplies, equipment and facilities for servicing and repair of weapons systems in the recipient country, and overhauls and repairs in the supplier country). Changes in these estimates could affect our annual Communist sales figures by 15-20 percent. (C)

While Communist export prices are appropriate for purposes of estimating sales and deliveries to LDCs in this paper, they are not a good measure for comparing Communist-LDC arms transactions with those of the United States or of other Western exporters because they often differ greatly from Western prices for similar equipment. For such comparisons, we use the estimated cost to LDCs if they purchased comparable equipment in the United States. This system of costing raises the dollar values of Communist sales and deliveries (based on export prices) by about one-fourth as shown below for the USSR (see table 2). (U)

Using US costs of production, the Soviet share of the world arms sales market in 1978 amounted to 10 percent, compared with about 25 percent in 1977 and 20 percent in 1974-76. Soviet deliveries, however, accounted for 30 percent of worldwide arms deliveries last year, roughly the same share the Soviets have held since 1975. (S)

Patterns in 1978

We do not usually attribute much significance to annual fluctuations in Soviet arms sales. Declines often occur after heavy sales years because LDCs are drawing down earlier contracts and need time to absorb modern weapons into their inventories before placing new orders. The sharp drop in 1978 sales and the failure of sales to regain momentum in the first six months of 1979 may be of more lasting significance, however, because (a) Moscow has lost a number of big customers and (b) important Soviet clients have begun to place large orders in the West. (S)

We do not expect to see large orders from Peru, Egypt, or Iran repeated in the next several years. Peru—which had contracted for $655 million in Soviet arms—will not likely add to its orders in the near term because of dissatisfaction with Soviet maintenance procedures; Egypt remains estranged; and Iran—a $1.4-billion customer whose orders for ground forces equipment were spread over a decade—offers practically no prospect for additional sales. (S NF)

Table 2

Million Current US $

USSR: Arms Sales and Deliveries to LDCs in Soviet Export Prices and US Costs of Production

	Sales, Valued at		Deliveries, Valued at	
	Soviet Export Prices	US Cost of Production	Soviet Export Prices	US Cost of Production
	4,227	4,695	2,310	2,567
	2,036	2,672	1,845	2,422
	3,374	4,232	2,576	3,229
	5,216	6,167	3,515	4,157
	1,767	2,299	3,827	4,982

Table is unclassified.

The recent sales declines also may signal a movement of some major customers into alternative arms markets which could affect future Soviet sales levels. While it is still too early to assess the longrun implications of the growing diversification by these LDC arms buyers, the movement to the West cost the USSR more than $4 billion in sales in the past two years. Western countries, anxious to capture some of Moscow's lucrative markets, have been especially active in pushing sales of aircraft, which made up half of Soviet arms sales in 1974-78. Western technical advances (particularly in fighter aircraft, helicopters, and electronics), willingness to sell advanced technology to LDCs, and superiority in providing servicing and spare parts give Western suppliers a good competitive edge, particularly when prospective customers have access to ample petrodollars. Soviet advantages in price and terms of sales have also faded. Moscow no longer routinely offers modern weapons at substantial discounts, and since the 1973/74 oil price hike, Soviet weapons prices have in some cases risen to near world market prices. (s)

Iraq is the most important example of a Soviet client that has begun to diversify its supplier base and reduce its dependence on Soviet arms. India also made its first major purchases in the West in 1978, and Syria, in a smaller way, moved in that direction. To some extent Iraq's failure to place large new arms orders with the USSR in 1977-78 was caused by political tensions with Moscow and Baghdad's need for time to absorb a $1.5 billion order into its inventories in 1976. On the other hand, Baghdad bought nearly $2 billion of arms in the West (mostly French aircraft) most of which would have gone to the Soviets in the past. Additional contracts (valued at a possible $1.5- 3 billion) now being negotiated with France for airplanes and naval craft would erode the market for Soviet sales in Iraq still further. Initially, at least, the Western equipment is expected to complement Iraq's $5 billion of Communist purchases. We expect to see Iraq reorder Soviet equipment, and add more modern Soviet weapons, to Communist arms bought in the past two decades, especially when Baghdad desires fast delivery. Such rapid delivery, typical of Soviet arms supply policy, was noted again with Iraq's receipt of a near-record $600 million of shipments in 1978. A backlog of less than $200 million still remains to be delivered under old accords. (s)

India's recently strengthened financial position and its broader political orientation have led to a break in the 17-year Indian dependence on the USSR for arms. Thus, in 1978 New Delhi selected Anglo-French Jaguars, valued at $1.7 billion, in preference to Soviet MIG-23s and SU-20s. This deal-- India's first major arms purchase in the West--may be followed by a large order for naval craft which the Indians are presently discussing with several Western countries. These expanded orders in the West as well as India's increasing reliance on its own arms industry will probably reduce the potential of Soviet sales to India, although, at a minimum, we expect New Delhi to continue to purchase core equipment requirements in the USSR. India also will maintain its heavy reliance on Soviet designs and critical components for its arms industry. Rapid deliveries of Soviet equipment will offer an inducement for continued purchases, as in the pending sale of MIG-23s, which are intended to tide India over until the Jaguars are delivered. Terms, which allow repayment in rupees, will be a further inducement. (s)

The failure of Moscow and Syria to sign large new arms accords in 1978 despite the nearly complete drawdown of outstanding contracts was largely political; nevertheless, it is also true that Moscow's intermittent use of arms supplies as a political weapon against Syria has contributed to Damascus' interest in pursuing other sources of arms. This has been made possible by the $6 billion of OPEC pledges of economic and direct military assistance to Syria since the 1973 war. In 1978, for the first time, Syria placed major orders in the West ($300 million largely for the French Milan and HOT antitank missile systems). The recent political accord with Iraq and the establishment of a centralized military command probably will further enhance Syrian financial ability to buy from non-Communist suppliers and could limit the USSR's potential arms sales opportunities in Syria, its largest arms customer whose purchases exceed $4.5 billion. (s)

Except for Libya, none of Moscow's other arms clients could take up the slack in LDC demand for Soviet arms if orders from Iraq, Syria, and India were to level off. Libya, which has bought almost $3 billion worth of arms from the USSR in the past five years, along with

large purchases from Western suppliers, has maintained a rhythm of orders from Moscow which we expect it to maintain. Traditional Soviet customers are expected to continue to rely on the USSR for major inventory restocking. Among these only Algeria is a major customer, with almost $2 billion of orders placed thus far; Afghanistan follows with somewhat less than a billion dollars spread over almost 25 years; and South Yemen trails with less than half a billion dollars. New areas (in particular, sub-Saharan Africa) offer few opportunities for massive Soviet sales because of limited financial and absorptive capacity. (c)

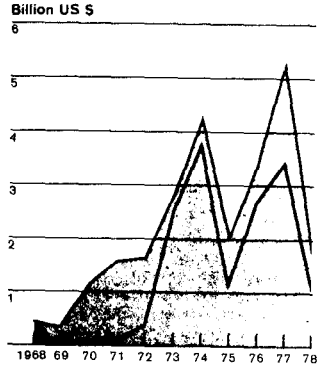
Commercial Returns From Program

Although recent Soviet initiatives clearly reaffirm Moscow's decision to employ military sales as a means of maintaining a presence in the Middle East and Indian Ocean area, Moscow clearly recognizes the economic benefits involved in arms transactions; for example it continues to cultivate affluent Arab states and demand hard currency for arms. These exports now cover large annual deficits in Soviet nonmilitary trade with LDCs and significantly supplement Moscow's hard currency earnings. Almost all the arms-for-commodities trade of earlier years has given way to payments in hard currency, as Moscow's oil-rich clients have paid in foreign exchange for their own arms purchases as well as often picking up the tab for poorer states. Saudi Arabia and Kuwait have financed arms purchases of several Arab countries, notably Syria's. Only Afghanistan, India, and a handful of small buyers in Africa and Asia retain the local currency or commodity repayment privilege. We estimate Soviet arms sales for hard currency in 1974-77 at about $12 billion (three-fourths of total sales); in 1978, they totaled roughly $1 billion or 60 percent of the sales total. (see figure 3) (s)

Military Technical Services at New Height

The number of Communist military personnel in LDCs in 1978 rose by more than 50 percent for the second consecutive year. Almost three quarters of the 52,000 instructors, advisers, technicians, and troops were Cubans working in sub-Saharan Africa, many engaged in actual combat (see table 3). (U)

Figure 3: USSR: Hard Currency Sales as a Share of Total Military Sales to LDCs



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The influx of over 15,500 Cubans into Ethiopia early in 1978 to counter Somali forces in the Ogaden accounted for most of the increase in the Communist military presence during the year. Many of these troops had been transferred from Angola, with the Cuban presence in Angola being maintained by the arrival of about 19,000 replacements from Cuba. The Cuban force in Mozambique also rose (to about 800) as several hundred troops were transferred from Angola and Ethiopia in October to strengthen Mozambique's defenses against the increasingly destructive Rhodesian cross-border raids. At the same time, Guinea reduced the number of Cubans, and Tanzania, despite large receipts of Soviet equipment, nearly eliminated the Cuban presence by the end of the year. (s)

Table 3

Number of Persons

Communist Military Personnel in LDCs, 1978

	Total	USSR	Eastern Europe	Cuba	China	Other
Total	**51,935**	**10,770**	**1,300**	**38,650**	**600**	**535**
North Africa	3,045	2,310	450	215	...	70
Sub-Saharan Africa	42,085	3,300	515	37,275	590	405
Latin America	160	150	...	10	...	...
Middle East	5,705	4,160	335	1,150	...	60
South Asia	940	850	...	...	90	...

This table is unclassified.

The heavy flow of advanced Soviet weapons into LDC inventories has increased the burden on the USSR for training local personnel in the maintenance and use of the equipment. Approximately 1,900 LDC nationals were in the USSR at yearend 1978 for specialized training (about half Ethiopian) (see table 4). At the same time, almost 10,800 Soviets and 1,300 East Europeans (20 percent above the number in 1977) were in LDCs. In contrast with recent years, when the largest contingents of Soviet–East European personnel were in Black Africa, most of the increase in 1978 was in North Africa and the Middle East because of initial deliveries of MIG-25 fighters and MI-24 helicopters to Algeria and Libya and of ZSU-23-4 self-propelled antiaircraft guns to South Yemen. (s)

The decline in sub-Saharan Africa stemmed from (a) the expulsion of the 1,500 Communist advisers from Somalia in November 1977; (b) smaller reductions in Guinea, which revoked the contracts of its 60 Soviet advisers; and (c) further reductions in Tanzania, which was gradually reducing the Soviet presence. The numbers in Angola and Ethiopia, however, were more than doubled; East Germans were especially active in Angola in security and intelligence roles.(s)

Table 4

Military Personnel from LDCs Trained in Communist Countries, 1978

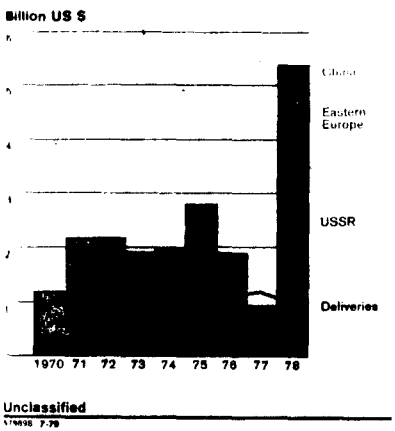
	Total	USSR	Eastern Europe	China
Total	**2,820**	**1,925**	**845**	**50**
North Africa	45	5	40	...
Sub-Saharan Africa	1,620	1,440	155	25
Latin America	100	100	...	...
Middle East	1,030	380	650	...
South Asia	25	NA	NA	25

This table is unclassified.

The Economic Aid Program: In High Gear

Communist countries pledged nearly $5.4 billion in economic aid to the Third World in 1978, bringing the total Communist commitment since 1954 to $31 billion (see figure 4). Commitments were at a peak for both the Soviet and East European programs while China's pledges of $185 million to 16 LDCs showed no change from 1977 levels. (U)

Figure 4: Communist Economic Agreements With and Deliveries to LDCs



Unclassified

Moscow's unprecedented $3.7 billion commitment in 1978 brought its annual program close to US annual aid levels ($4-5 billion) for the first time. Unlike US aid, which provides large amounts of food assistance and funding of infrastructure development, Soviet aid continued to be almost entirely tied to large industrial projects in the public sector. Soviet policymakers continued to ignore pressures from younger Soviet economists to adopt a newer, more complex approach to development. This approach—being pushed by certain members of the international aid community—favors assistance to rural development for the satisfaction of basic human needs. The USSR continued to sidestep LDC demands for more concessional assistance and there were few signs of any overall softening in Communist aid terms. While the Soviet-Moroccan deal carried somewhat better terms than usual—repayment over 15 years including three years grace at 3.5 percent interest—most of the Turkish contracts are expected to carry 10-year terms with interest of 4.5 percent. East European agreements ran the gamut from 8 to 15 years to repay at interest of 2.5 percent to 6 percent, with the majority probably falling in the 10 year, 4.5-percent category that appears typical of recent East European aid. (C)

Eastern Europe's $1.5 billion in aid extensions in 1978 surpassed earlier annual commitments by more than half a billion dollars and (as in 1977) was dominated by East German credits of $965 million. (S NF)

USSR: Record Year for Aid

The $3.7 billion in Soviet economic aid pledged in 1978 exceeded the 1975 record by 90 percent and brought the 24-year Soviet aid total up to $17 billion (see table 5). (U)

Large credits to two Western oriented countries—Morocco and Turkey (which accounted for 90 percent of Soviet economic aid extended in 1978)—dominated the sharp recovery in Soviet assistance from the 10-year 1977 low. Both the Moroccan and the Turkish credits were under "framework" accords: the accord with Morocco was signed in 1978, while the pledge to Turkey was a massive expansion of the aid available under the terms of a 1975 accord. These agreements in principle usually identify areas for economic and technical cooperation without allocating definite amounts of aid for actual undertakings. As project-by-project studies are completed, separate agreements are drawn, with financial conditions ranging from commercial credits to concessionary arrangements. More and more in the past several years, the USSR has signed these open-ended agreements which tend to spread aid allocations out over long periods. (C)

The $1.3 billion commitment to Turkey for expanding Soviet-built steel and aluminum plants and for building power plants and a new refinery, by more than doubling the size of Moscow's earlier commitment, responded to Ankara's deepening financial crisis. Although providing little or no immediate balance-of-payments relief, the agreement will help maintain

Table 5

Million US $

Communist Economic Aid Extended to LDCs, 1978

	Total	USSR	Eastern Europe							China
			Total	Bulgaria	Czecho-slovakia	East Germany	Hungary	Poland	Romania	
Total	**5,394**	**3,707**	**1,502**	**56**	**245**	**963**	**53**	**23**	**162**	**184**
Africa	**2,708**	**2,011**	**627**	**21**	**105**	**307**	**19**	**23**	**152**	**71**
North Africa	**2,130**	2,000	**110**	...	25	21	...	14	50	20
Morocco	**2,109**	2,000	**89**	...	25	...	...	14	50	20
Tunisia	**21**	...	**21**	...	...	21	...	...	...	...
Sub-Saharan Africa	**578**	11	**517**	**21**	80	286	19	9	102	51
Angola	**77**	1	**76**	...	NA	NEGL	...	1	75	...
Ethiopia	**306**	NEGL	**306**	**21**	45	206	9	NEGL	26	...
Ghana	**42**	...	**42**	...	...	42	...	...	...	...
Somalia	**18**	...	...	...	...	...	...	...	...	**18**
Sudan	**25**	...	**24**	...	24	NEGL	...	...	...	NEGL
Tanzania	**30**	...	**30**	...	...	12	10	8	...	...
Uganda	**49**	...	**22**	...	...	22	...	...	...	26
Other	**31**	10	**17**	...	11	4	...	...	1	7
East Asia	**170**	...	**170**	...	**140**	**30**	...	...	...	NA
Burma	**140**	...	**140**	...	140	...	...	...	...	...
Philippines	**30**	...	**30**	...	...	30	...	...	...	...
Thailand	NA	...	...	...	...	...	...	...	...	NA
Latin America	**261**	**15**	**244**	...	...	**206**	**28**	...	**10**	**2**
Brazil	**200**	...	**200**	...	...	200	...	...	...	...
Jamaica	**30**	...	**28**	...	...	...	28	...	...	2
Other	**31**	15	**16**	...	...	6	...	...	10	...
Middle East	**1,867**	**1,399**	**441**	**35**	...	**400**	**6**	...	...	**27**
North Yemen	**60**	38	...	...	...	...	...	...	...	22
South Yemen	**101**	90	**6**	...	...	NA	6	...	...	5
Syria	**350**	...	**350**	...	...	350	...	...	...	...
Turkey	**1,355**	1,270	**85**	35	...	50	...	...	...	...
South Asia	**388**	**283**	**20**	...	...	**20**	...	...	...	**85**
Pakistan	**250**	225	...	...	...	...	...	...	...	25
Sri Lanka	**138**	58	**20**	...	...	20	...	...	...	60

This table is Secret Noforn.

10 years. Moscow also has plans to construct alumina capacity in India, which would assure Moscow imports of up to 500,000-600,000 tons of alumina a year in the 1980s. The Soviets also have offered to build alumina plants in Greece, Guyana, and Indonesia. (U)

Moscow's fisheries program in LDCs has been successful in expanding the scope of the Soviets' own fishing operations. In return for $260 million of assistance to 40-odd Third World fishing industries, the USSR has gained the use of onshore facilities and fishing rights, which will help maintain the position of its fleet as the largest most modern on the high seas. In 1976, for example, the USSR's catch from West African waters (1.3 million tons) alone was more than the combined catch of all West African countries. In that year the USSR exported about 470,000 tons of fish valued at $130 million. (U)

Despite Moscow's high degree of self-sufficiency in cobalt, the instability in Zaire (a major producer) sparked several long-term purchase offers to LDC cobalt producers, mostly in Africa. Moscow also has shown interest in ferroniobium and manganese for use in the steel industry, as well as some iron and steel products. Soviet programs to expand Soviet iron ore output have been hampered by quality problems. Some domestic stringencies have resulted and Moscow has informed Eastern Europe that it cannot meet all of their growing needs for iron ore. Even though the Soviets still are major exporters of iron ore, they have begun to swap oil for iron ore in India and have contracted for 270,000 tons of pig iron and steel products annually from the Soviet-assisted Karachi steel mill in Pakistan. Moscow also will import steel from a 3-million-ton blast furnace complex to be built in India, in addition to products from Soviet-built Indian plants already in operation. With the slowing of growth in Soviet steel capacity, together with higher costs of operation and expansion, the USSR no longer enjoys its traditional position as a net exporter of steel. Between 1970 and 1976, Moscow already doubled its imports of rolled steel products. A continuing strong growth in need for certain high-specification steel products is foreseen, the more so as they press their massive development projects in Siberia. (C)

In general, Soviet offers to invest in increasingly costly LDC public sector development plans have met with a warm reception from Third World countries, eager to get on with the development process. In return, LDCs have been willing to commit resources to the Soviets over long periods in order to get development schemes moving. (U)

Technical Services: Largely a Cash-Flow Program

The Communist technical services program—a lucrative outgrowth of the aid program—continued its steep upward climb in 1978, as Communist countries supplied the services of nearly 108,000 technicians to LDCs, about 20,000 more than in 1977 (see table 6). These services were provided both as aid and under commercial contract to 77 countries. The largest increase was in East European personnel (9,000) which in the past four years have set the pace for Communist technical assistance; the Cuban presence doubled in size to more than 12,500; and the USSR sent 5,000 additional technicians. China, which wound up major road construction projects in Rwanda and Sudan, saw its personnel in sub-Saharan Africa dip below 20,000 for the first time in seven years. This caused most of the 10-percent decrease in the overall Chinese program. (U)

The concentration of Soviet and East European and personnel in oil rich states became even more pronounced than before, with 32,500 East Europeans and more than 14,000 Soviets being posted to Algeria, Libya, Iran, Iraq, and Kuwait. Nearly half the East Europeans abroad (22,000) were in Libya, with Algeria and Syria the next ranking recipients of these services. In some cases the services are financed under aid agreements; in others—especially for nonproject services—the USSR is paid in hard currency. The Soviets may have earned as much as $150 million in hard currency from this source in 1978. A growing number of East European technicians are employed under commercial contracts calling for hard currency payments, which came to $500 million in 1978. For example, Bulgarian services to Libya were valued at $115 million, outstripping Bulgaria's entire 1977 merchandise exports to Libya by $10 million. Hungary reports earnings of $50 million a year from its Third World services program. (S)

Table 6

Number of Persons

Communist Economic Technicians in LDCs, 1978 [1]

	Total	USSR	Eastern Europe	China	Cuba	North Korea
Total	**107,995**	**27,620**	**45,035**	**22,005**	**12,525**	**810**
North Africa	**38,030**	6,680	29,485	715	450	700
Sub-Saharan Africa	**37,320**	4,895	2,745	18,615	10,970	95
East Asia	**220**	35	50	135	...	...
Europe	**155**		30	125	...	...
Latin America	**1,050**	350	350	160	190	...
Middle East	**25,895**	11,885	12,005	1,075	915	15
South Asia	**5,325**	3,775	370	1,180	...	...

[1] Minimum estimates of number present for a period of one month or more. Numbers are rounded to the nearest 5.

This table is Secret Noforn.

High and rising salaries have helped make technical services increasingly profitable in the past three years. Czech and Polish professionals command top wages (about $2,500 a month) while Bulgarians charge only about $800-$1,000 a month. The USSR varies the charges for its personnel, with a wide spread among LDCs. Despite the concessions the USSR sometimes makes on salary payments, several African countries have complained of the burden Soviet technicians impose on their economies. While we have no evidence that Soviet charges have been excessive, Chad and Guinea refused to renew contracts for some Soviet technicians in a cost dispute. (S)

Middle Eastern countries continued to employ the largest number of Soviet technicians (11,885) accounting for almost 45 percent of those assigned to LDCs. The Soviet contingent in Africa was only slightly smaller; 70 percent of those assigned to Africa performed professional services rather than project tasks, compared with only about 10-15 percent in the Middle East. This meant that Africa absorbed nearly 85 percent of the more than 1,600 Soviet doctors and 4,500 teachers in the LDCs in 1978 and nearly half of the 2,100 Soviet geologists in the Third World. On the other hand, Soviet clients in the Middle East and South Asia accepted three-fourths of the 18,200 Soviet personnel posted to development projects, as well as 225 doctors, 750 teachers, and 1,200 geologists. All of the 350 Soviet personnel in Latin America were assigned to development sites.(C)

Cuba continued to support Soviet initiatives in the Third World and expanded its technical efforts into hard currency markets, while maintaining an expanded presence in southern Africa during 1978. For example, Algeria, Iraq, and Libya accepted their first Cuban doctors during the year, nearly 900 of them. The services provided new areas, together with a near doubling of personnel stationed in sub-Saharan Africa, brought the Cuban economic presence to about 12,500. At least 3,000 were doctors and 2,000 teachers, who, according to Cuban officials, earned $50 million in hard currency for Havana in 1978. The remaining personnel were mostly construction workers on infrastructure projects. (C)

Large new Cuban contingents went to Angola and Mozambique, as Angola gradually shifted from military to civilian forces and as civilian construction work expanded in Mozambique under agreements signed during the year. These contingents are continuing to grow in 1979 and together should total more than 10,000 persons by yearend. This growth continues despite complaints by both countries about the quality and sometimes the integrity of the Cuban cadre. Recent salary increases (salaries now generally run from $250 to $850 a month, with charges for doctors in Algeria reported as high as $3,000 a month) may mean that the employment of Cubans as an economy measure will become less attractive. Cuba was reported to have provided many services free of charge in the early years of the program, with recipient countries

covering only local expenses and possibly token salaries ($30 to $50 a month). (S)

Despite the strains on manpower resources at home, Cuba has further moved into civil construction contracts in Iraq and Libya and hopes to earn $150 million of hard currency from oil producers in 1979. (U)

China launched its first venture into commercial services in 1978 under a Kuwaiti contract to construct 4,000 houses. If the Kuwaiti deal meets China's expectations as a hard currency earner, Beijing plans to offer services worldwide on highly competitive terms. Meanwhile, Beijing continued to purvey services at bargain rates—$30 to $100 a month in salary plus local subsistence for each technician, often financed under the aid agreement. The number of Chinese technicians is expected to climb by several thousand in 1979 as the port project in Mauritania and roadbuilding in Madagascar accelerate. (S NF)

Technical Training: A Growing Effort

As part of the technical services program, the Communist countries have mounted major efforts to train local personnel to take over the management of development projects. Moscow has gradually cut back on the number of personnel sent to study in Soviet establishments as in-country training programs have become more efficient and less costly. Only about 3,300 technical trainees—almost all from major Communist partners in Arab countries and South Asia—went to Communist countries in 1978, bringing the total trained since the beginning of the program to over 48,000. Meanwhile, the USSR has provided on-the-job training to 550,000 nationals, 60,000 in Afghanistan alone. (U)

Cuba also continued its large training program by accepting about 1,500 Ethiopian and 1,200 Mozambican school-age children at a new facility on the Isle of Pines that eventually will have a capacity of 20,000 students. (U)

Academic Students: A Low-Cost Investment

Moscow probably has spent close to a billion dollars on Third World student training in the USSR over the past two decades and is spending $3,000-5,000 annually to support and train each LDC student. East European scholarships are valued at $6,000 a year for academic study and $4,500 for engineering subjects. (S)

In 1978 the number of LDC nationals in Soviet and East European academic schools rose to more than 45,000 as 8,700 new students began their studies (see table 7). The 26,500 Third World students took up nearly half the places allocated to foreign students, and will increase by one-third under Soviet plans to increase LDC enrollments by 1980. African students, which always have comprised the majority in both Soviet and East European recruitments, rose to a record 23,500, about half the LDC student body in Communist institutions. (C)

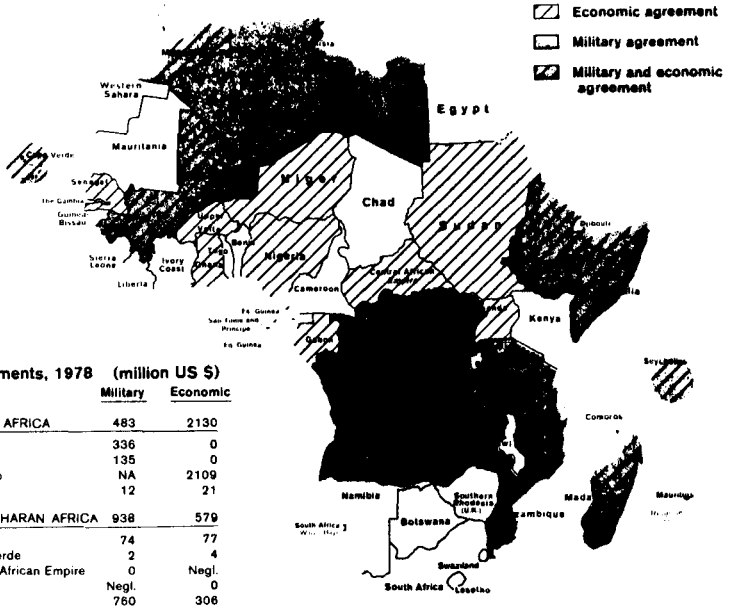
Table 7 Number of Persons

LDC Academic Students Being Trained in Communist Countries as of December 1978

	Total	USSR	Eastern Europe	China
Total	**45,265**	**26,445**	**18,560**	**260**
North Africa	3,575	2,035	1,520	20
Sub-Saharan Africa	19,975	11,600	8,235	140
East Asia	35	25	10	...
Europe	20	10	5	5
Latin America	4,650	2,760	1,890	...
Middle East	12,155	6,615	5,525	15
South Asia	4,855	3,400	1,375	80

This table is Secret Noforn.

Figure 6: AFRICA
Communist Agreements with LDCs, 1978



Agreements, 1978 (million US $)

	Military	Economic
NORTH AFRICA	483	2130
Algeria	336	0
Libya	135	0
Morocco	NA	2109
Tunisia	12	21
SUB-SAHARAN AFRICA	938	579
Angola	74	77
Cape Verde	2	4
Central African Empire	0	Negl.
Congo	Negl.	0
Ethiopia	760	306
Gabon	0	2
Ghana	0	43
Guinea	12	Negl.
Madagascar	53	6
Mali	2	1
Mozambique	11	2
Niger	0	Negl.
Nigeria	0	NA
Rwanda	1	NA
Senegal	0	Negl.
Seychelles	2	4
Somalia	3	18
Sudan	0	25
Tanzania	17	30
Uganda	0	49
Upper Volta	0	Negl.
Zaire	1	Negl.
Zambia	Negl.	12

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Appendix
Country Selections

North Africa

General

Communist arms transfers and new economic aid agreements with North Africa hit record highs in 1978, giving the region top rank for the first time among Communist military and economic aid clients. The record included: (a) Moscow's largest single deal with an LDC (Morocco), (b) new highs for technical assistance—both economic and military—and (c) agreements for Algeria's and Libya's first MIG-25 jet fighters, the first of the advanced aircraft provided any LDC. New tensions following Camp David and the failure to reach a settlement in Western Sahara had further raised Algerian and Libyan demands for modern weapons. (C)

Despite the sharp fall in the value of new agreements in 1978, arms deliveries to North Africa soared, and the number of Communist technical advisers nearly doubled. The largest increases were in Libya, which is the fourth largest current Communist arms client and which shares second place with Ethiopia in the Soviet technical presence. Moscow's interest in expanding commercial relations with North Africa was highlighted by the $2 billion phosphate credit to Morocco. (U)

Algeria

A $235 million Soviet agreement for MIG-25s—Moscow's most sophisticated jet fighter export—highlighted Algeria's relationship with the Communist world in 1978. The new Algerian leadership, which took over from the late President Boumediene, confirmed previous radical positions on North African and Middle Eastern affairs and moved a step closer to the USSR by allowing limited port access to Mers el-Kebir for ships of the Soviet Mediterranean squadron. Record arms deliveries demonstrate Moscow's tacit agreement with Algeria in its dispute with Morocco and Mauritania over Western Sahara. Deliveries reached $390 million in 1978 and included the first deliveries of MIG-25 jet fighters, as well as MI-24 helicopters, armored personnel carriers, self-propelled guns, surface-to-air missiles, and OSA-II class missile attack boats. (S NF NC)

Deliveries of MIG-21 and MIG-23 fighter aircraft, helicopters, air defense systems, ground equipment, and naval escorts continued, and 400 additional Soviet military were dispatched to Algeria in 1978, bringing their number up to 1,000. Despite the increase in advisory personnel, Western observers still doubt Algeria's ability to use the new weaponry effectively and predict a long-term period of dependence on the USSR for these services. (S NF NC)

Algeria also signed a $100 million agreement with Bulgaria for ammunition, Sofia's largest single military contract with a Third World country. (S NF NC)

Algeria's growing respect for Western technology and education and its acceptance of Western development loans has eroded some of Moscow's influence in economic affairs. The USSR nonetheless still pursues an active program. It began studies on the aluminum complex which it will build under $290 million of credits provided in 1977 and began negotiations for constructing a mining and metallurgical complex and possibly a second steel mill—even though Moscow is not interested in building additional steel plants at the moment. The USSR also agreed to construct 22,500 houses in Algiers, Oran, and Skikda and to provide a prefabricated housing plant in 1981. We have noted no action on plans for a heavy electrical machinery complex, a dam and irrigation works, and oil refineries discussed under a January 1976 framework agreement. (U)

Meanwhile, work continued on installing a second blast furnace at the Annaba steel plant, where nearly 45 percent of Moscow's $715 million aid program in Algeria has gone. Eastern Europe's $525 million in development assistance has been almost as important as the USSR's and in many cases Algeria is said to prefer East European technology over Soviet technology. East European countries also are getting into housing construction, where Algeria has mounted a crash program. Hungary, for example, agreed to design dwellings for a public construction firm that will build 500 houses in Annaba, while Poland and Algeria set up a consortium to build thousands of houses under the Algerian Government program to construct 100,000 houses annually. Warsaw will supply construction materials, equipment, and engineering services. Other major Polish projects under consideration include a sulfuric acid plant and a 500,000-ton cement plant. Polish firms reportedly have the inside track on a contract for the $750 million Mers el-Kebir shipyard, for which Poland already has completed a pilot shipyard which entered production two years ago. Czechoslovakia and East Germany continued work on steel fabricating plants at Medea, while Bulgaria concentrated on dam and irrigation projects. (U)

The number of Communist economic personnel in Algeria climbed to 11,750, led by the 6,000-man Soviet contingent—Moscow's largest in a Third World country. Nearly 5,500 East Europeans worked in Algeria, mostly in administrative jobs including teachers and doctors. Cubans joined other Communist technicians for the first time, 50 medical personnel arriving under a midyear agreement. About 300 Chinese worked in agriculture. With the training of approximately 50,000 Algerians in Communist-built establishments, Communist countries also have had a decisive role in training Algeria's unskilled labor force and filling gaps in technical services left by the departure of the French in the 1960s. (U)

Libya

Earlier strains between Libya and the USSR have largely faded in the light of political-economic realities that suggest further areas for cooperation. Until now the relationship has hinged on (a) $3.6 billion of arms agreements with Communist countries, which have provided Tripoli one of the most extensive arsenals outside the Warsaw Pact, and (b) East European technical services for implementing commercial contracts which were awarded mainly on the basis of Libya's policy of preferential treatment for East European bids. (S NF NC)

Libya's hard currency purchases of Communist arms have been marked by the increasing sophistication of the weapons and higher prices. While Soviet sales in 1978 fell to $81 million (for at least five IL-76 transports), actual transfers reached nearly $800 million. The new equipment displayed in the September National Day parade included MIG-25 jet fighters, SA-9 air-defense missile systems, Frog-7 rockets and Czech L-39 jet trainer aircraft. Other important deliveries in 1978 included two Soviet F-class submarines, one Polish Polnocny LST landing craft, and a variassortment of rockets, aircraft, and ground equipment Tripoli also signed agreements with North Korea, Poland, Romania, and Yugoslavia, with the combine minimum value an estimated $169 million. (S NF NC)

The number of Soviet technical personnel rose to 1,3 in 1978, most of whom were assigned to the Soviet military advisory group for tactical training, repair, and maintenance work. (S NF NC)

The number of East Europeans working on Libyan development contracts rose to an unprecedented 22,000 in 1978. They accounted for nearly half of all East European personnel working abroad and up to percent of Libya's foreign work force. This number expected to jump again as Libyan agencies respond Qadhafi's orders to shift existing development contracts to Communist countries. (S NF NC)

During 1978, East European governments concluded the following agreements with Libya:

- An $80 million Bulgarian contract to install facilit at six hospitals, as well as seven-year agreements for more technical assistance to agricultural, transportation, and industrial projects, and a doubling of the technical presence—which stood at 10,000 in 1978.
- A 10-year East German pact on political, economi and scientific cooperation whose terms were not announced.

• A technical protocol with Poland for building 440 farms in Libya, in addition to the 1,300 the Poles have already built, and for increased Polish participation in planning, designing, and executing municipal projects. (U)

The billion dollars worth of contracts discussed last year under a 1976 Soviet-Libyan economic agreement are to include (a) a 300-MW nuclear powerplant, (b) a development plan for the gas industry through the year 2000, (c) oil and uranium exploration, (d) a $400 million research reactor at Tajura, (e) construction of a 650-kilometer gas pipeline, and (f) a 5-million-ton iron and steel plant. (U)

The Soviets already have begun work at the reactor and contracts have been let for the gas pipeline. Soviet technicians have mounted a search for uranium and 100 Soviet technicians were due to arrive before yearend to explore for oil. (S NF)

In 1978, China agreed to establish diplomatic relations with Libya. This was followed by their first economic and technical cooperation agreement. Cuba signed an agreement to send 300 doctors to Libya, for whom Tripoli is paying almost a million dollars annually, presumably in hard currency, as well as transport costs. The two sides also discussed Cuban construction of a 200,000-ton sugar refinery in Libya for which Cuba would supply the raw sugar. (S NF NC)

Libya's oil reserves have always interested the Communists. Except for a two-year period in the mid-1970s, when Libya became a major supplier to Eastern Europe, price disputes have held up large new contracts. In 1978, however, Bulgaria expressed willingness to take oil for services and Czechoslovakia reportedly agreed to buy 20 million barrels of oil annually in exchange for industrial goods. Libya reportedly sold 60 million barrels of crude oil, possibly Sarir crude, to the Soviets in 1978 at $8-10 per barrel, under a 1976 agreement. Other sources report that the USSR accepted 22,000 b/d of Libyan oil in 1977 as repayments for military equipment, and expected to buy 40,000 b/d in 1978 for hard currency. The Libyan oil is processed in Caribbean refineries, possibly for Cuba. (S NF NC)

Mauritania

As Mauritania's most important Communist aid donor, the PRC managed to improve its influence with the new Mauritanian Government that took power following a coup d'etat in July 1978. The Soviet position has apparently declined because of hard feelings over the Western Sahara and Soviet fishing activities. Romania, the only other East European country with interests in Mauritania, generally sides with Mauritania on international issues. (C)

Notwithstanding the $500 million in Arab aid and substantial French assistance, which dwarf the $85 million of Chinese commitments, the PRC is the most popular aid donor in Mauritania. The Chinese-built Nouakchott power plant, which opened with much fanfare in November, covers about 25 percent of the city's needs and eliminates the former daily power outages. Work began on the long-awaited $55 million Nouakchott deepwater port—one of China's largest current projects in the Third World—and continued on several medical and agricultural undertakings. (U)

Soviet aid initiatives have been courteously received but not acted on. The new government canceled all fishing arrangements, including the Soviet agreement, because foreign countries are overfishing Mauritanian waters. Moscow's development aid proposals include the provision of fishing boats and fish processing facilities, as well as geological and mining surveys and prospecting for natural resources including oil and uranium. Moscow hopes to restore its profitable position in Mauritania's fishing industry. (S NF NC)

Mauritania is concerned that the USSR may use the $5 million oceanographic research center being built at Nouadhibou for subversion. The original agreement, signed with the previous government, calls for the Soviets to man the center and to carry out research operations and studies. Mauritania already is looking to other countries to help operate the project. (S NF NC)

Morocco

The 30-year, $2 billion accord for Soviet development of the Meskala phosphate deposits in southern Morocco, billed by Morocco's King Hassan II as the "contract of the century," is Moscow's largest commitment to a single project in the Third World and marks the first Soviet agreement to import phosphates. An initial $20 million allocation has put in train feasibility and engineering studies for the multifaceted project, which will include a railroad, a road network, port and storage accommodations, as well as open pit mining operations. More than 100 Soviet personnel have arrived at the project site for studies. In a more skeptical vein, Western observers feel that at least 20 percent of the equipment for the scheme must be purchased in hard currency markets and that Moscow will not break precedent to provide convertible currency loans. (S)

Most of the 10-million-ton annual output from Meskala will be exported to the USSR to repay the $2 billion construction loan, and as barter for Soviet products. The deal is expected to boost Soviet-Moroccan trade to first place among the USSR's African trade accounts. The present nearly balanced Soviet-Moroccan trade is supported largely by an annual citrus-for-oil barter agreement, which had made the USSR Rabat's principal source of oil. (U)

The USSR and Morocco also established a joint fishing venture in April, with a 49-percent Soviet share for which Moscow will provide the know-how and most of the equipment. Morocco's only major military deal with the USSR—a $25 million 1974 agreement for air defense and ground forces materiel—has never been fully implemented. (S)

Morocco's $90 million in credits from Czechoslovakia, Poland, and Romania were intended to expand equipment sales of these East European nations to overcome the deficits in their trade accounts resulting from their continuing large phosphate purchases. Only Poland's $14 million loan is allocated to a specific project—the expansion of a phosphate plant at Safi to 500,000 to[n]. The expanded facility, the fourth such plant built by Polish enterprises in Morocco, will raise the sulfuric acid output from Polish built plants to 2 million tons annually. The plant is to be completed early in 1982, and will be paid for in phosphates. In 1978, Hungary completed installation of port cranes at Agadir. This was followed up by a similar order for Kenitra port. Morocco continued to express satisfaction with East European technical services, and the number of East Europeans employed in Morocco remained steady at 1,500. (U)

Tunisia

Tunisia signed new economic and military agreement with Communist countries in 1978, which did not alt[er] Tunisia's reliance on Western countries, particularly the United States. A $12 million military grant from China for automatic rifles, submachineguns, grenade and quartermaster supplies was added to China's earlier $9 million grant of two Shanghai-II-class patr[ol] boats and ground forces equipment. (S NF NC)

Meanwhile, China and the USSR continued their assistance to water development projects being financed with recent credits. At midyear, Soviet experts completed engineering plans for a dam on the Joumine River, to be funded with $55 million of 1976 credits, and China sent technicians to begin construction of the Medjerda–Cap Bon Canal under $90 million of Chinese agreements. (U)

The East European countries were more active, providing the only new aid in 1978 and about 525 technicians, mostly teachers and doctors. Their new efforts included (a) an East German credit of more than $20 million for railroad development; and (b) a Hungarian contract valued at $22 million for diesel trains, to be financed under a $35 million credit inked in 1977. (S NF)

Sub-Saharan Africa

General

The Soviet arms program in Africa continued to draw worldwide attention in 1978, Moscow reinforcing its position as the sub-Sahara's largest arms supplier with new agreements for $845 million worth of weapons. As a result of emergency support given new Marxist governments in Africa—begun in Angola in 1975 and later extended to Mozambique and Ethiopia—the sub-Sahara accounted for almost half of total Soviet arms sales to the Third World in 1978 and about one-fourth of the record sales in 1977. This compares with less than 5 percent before 1975. (C)

The $750 million of new agreements with Ethiopia in 1978 pushed Moscow's total military commitments to this new ally well over the $2 billion mark. The $1 billion in deliveries to Ethiopia was surpassed only by resupply of Syria in the year after the 1973 War. The modern armaments will gear up Ethiopian inventories for a protracted struggle against Eritrean separatists. Continuing deliveries to Angola ($85 million) and Mozambique ($50 million) were designed to consolidate the power of their Marxist governments. Other Frontline states—Tanzania and Zambia—received arms for transshipment to insurgent forces and for protecting their own borders. Meanwhile, the number of Communist technicians in Black Africa rose by 60 percent in 1978, largely because of the influx of more than 15,000 additional Cubans into Ethiopia. These personnel provided instruction in the use of modern weapons and directed military logistics and communications in the Ogaden and Eritrean campaigns. Seven hundred additional Cuban military personnel went to Mozambique in 1978, bringing their number to 800. (S)

Soviet weaponry, delivered by Libya to FROLINAT rebels was blamed for the overthrow of the Malloum government in Chad, while the Communist-supplied Katangan rebel invasion of Zaire (Shaba II) intensified African condemnation of Cuban/Soviet intervention on the continent. (S)

In the meantime, some old clients moved to decrease the Soviet presence. Guinea, for example, threw out most Soviet and Cuban military advisers late in 1978 and threatened to deny the Soviets access to Conakry port. This followed a 1977 action revoking Soviet rights to Conakry airfield for long-range reconnaissance flights. Loss of facilities in Guinea as well as in Somalia in 1977 prompted Moscow to push the Ethiopian Government to allow port development north of Assab for exclusive Soviet use—reportedly in exchange for additional aid. (S NF)

Moscow's economic program in sub-Saharan Africa in 1978 remained negligible despite continuing demands for increased aid. New extensions amounted to only $10 million (to seven countries). The USSR did not commit new aid to Ethiopia, nor initiate major new projects under credits remaining from a 1959 agreement. We give no credence to reports of $2-3 billion of new assistance to Ethiopia under a September economic and technical accord. (S NF)

On the other hand, East European countries increased total assistance to sub-Saharan Africa by more than one-half, with $515 million in new project commitments. Ethiopia received $300 million of aid from East European countries for infrastructure development. Eastern Europe also provided $75 million to Angola, $45 million to Ghana, and smaller amounts to a dozen other African countries. (S NF)

China, which had become the African countries' favorite donor in the early 1970s, extended only $50 million of new economic aid in 1978, as Beijing focused on its own development problems. Beijing continued to expedite programs under way and concentrated 85 percent of its 22,000 technicians in LDCs in sub-Saharan Africa, where they worked on agricultural development projects, highways, and railroad projects. (U)

In the following discussion, the African countries with the most important Communist aid programs are treated first, in alphabetic order, then the countries with lesser programs, also in alphabetical order. (U)

Angola

Despite the substantial Communist commitment of men and materiel to the defense effort of the Popular Movement for the Liberation of Angola (MPLA), antigovernment guerrillas still inflicted heavy casualties on government troops in 1978, and Angolans became increasingly frustrated with Communist failure to help control the insurgency and restore economic order. East European nations pushed for closer economic relations even though Luanda was exploring opportunities to reestablish economic and technical relations with the West. (U)

New Communist arms commitments continued to decline in 1978, Angola's military services needing additional time to absorb $480 million worth of new Communist equipment already received. Two-thirds of the $75 million pledged in 1978 was from Eastern Europe for nonlethal equipment, such as trucks from East Germany and Poland, uniforms from Romania, and communications equipment from Hungary. Moscow's $26 million of YAK-40 transport aircraft and AN-26s was the only military hardware sold to Angola in 1978. Arms deliveries totaling $115 million in 1978 included combat and transport aircraft and naval craft from the USSR, helicopters and trucks from Eastern Europe. (S)

The number of Soviet military advisers in Angola rose above wartime levels, doubling to about 1,000 early in 1978. Soviet officers continue to occupy key positions in Angola's military command and control structure. The East Germans, now totaling over 300, began to upgrade Angola's intelligence and security operations. The Cuban military presence remained at about 20,000. (S)

The European Communist countries and Cuba substantially increased their economic presence in Angola in 1978 through technical services programs, even though the increased activity did not lead to promises of sizable aid resources during the year. Romania accounted for the only specific commitment ($75 million for development projects) as most agreements remained in the talking stage. Nearly 10,000 Communist technicians worked in Angola, in response to a vigorous Angolan recruitment effort to fill some of the 100,000 or so jobs vacated by the Portuguese at independence. (C)

Grumbling against the Communists became more widespread in 1978 as the economic situation continued to deteriorate. While Angolans accused the Soviets and Cubans of mismanaging foreign trade and stealing cash crops (such as coffee), we have no evidence that this occurred on a wide scale. We do know that Communist countries have exacted hard terms for technical services. Charges of about $1,200 a month are made by the Soviets and East Europeans and $8 for Cubans, at least half of which is payable in hard currency. Still, the Cuban presence is expected to increase under agreements signed in December 197 (S NF)

East European countries expanded business ties with Angola by offering trade credits for equipment purchases. East German offers allowed five to seven ye credits at 5-percent interest for complete plants and machinery, while Bulgaria, Czechoslovakia, and Poland offered similar terms for vehicles. (S NF)

Other agreements included (a) Bulgarian protocols assist agriculture and urban modernization, (b) a Cuban promise to train 2,500 Angolan technicians Cuba, (c) delivery of six Soviet fishing vessels as a gi and (d) a Soviet pledge to establish a 400-hectare wheat farm as a gift. (U)

Moscow's small economic program in Angola has paralleled indifferent Soviet efforts in other African countries, with little interest indicated in developing viable public sector industries. Only aid to Angola's fishing industry, which allows Soviet vessels to trawl Angolan waters, and equipment for training schools has been provided. (U)

Ethiopia

A little more than a year after the USSR switched support from Somalia to Ethiopia, the Soviet-Ethiopian relationship still was held together largely by Moscow's military assistance program and Ethiopia growing dependence on Communist countries for technical support. Despite rumors of large economic accords, Addis Ababa had received no new Soviet commitments although the East Europeans pledged $300 million in new assistance. Moscow's economic program still is drawing on $100 million in credits provided in 1959. (S NF NC)

Moscow's three-year arms supply to Ethiopia is six times greater than that provided neighboring Somalia during that 13-year relationship. By yearend 1978, Ethiopia could boast of $2 billion in military commitments from the Soviet Union, and $66 million more from Eastern Europe. In return, Ethiopia signed a 20-year bilateral friendship pact with Moscow in November and granted the USSR exclusive rights to a naval facility it plans to build north of Assab. (S NF NC)

Nearly all of Moscow's massive military assistance was committed prior to and during Ethiopia's successful routing of Somali invaders from the Ogaden early in the year. Although we have not included in our estimates any new Soviet arms accords since April 1978, we strongly suspect additional military agreements were struck in the latter half of the year to accommodate Ethiopia's across-the-board transition from Western to Soviet military weapons and tactics. The earlier commitments rescued the Mengistu regime from almost certain collapse, but did not include sufficient inputs of logistical and technical support to sustain an effective, modern Soviet-equipped fighting force over the long term. Even in the absence of new Soviet-Ethiopian accords after April 1979, Soviet policy towards Ethiopia showed no change; the follow-up arms supply pattern will undoubtedly resemble the ones associated with some of Moscow's Middle East clients—that is, a steady heavy in-flow of equipment, more technical training, and future additions of more modern hardware to the Ethiopian inventory. (S NF)

The Soviet air and sea lift of arms and supplies to Ethiopia, which carried through the first four months of 1978, was largely responsible for the near-record $1 billion in equipment deliveries recorded for the year. Ethiopia became the first sub-Saharan recipient of MIG-23 fighters last year, and also took delivery of (a) SA-2 and SA-3 air defense guided missile complexes, which were erected quickly around Assab and Addis Ababa; (b) 20 MI-8 helicopters; (c) a dozen AN-12 transport planes (on loan), and (d) thousands of Soviet transport vehicles to support the huge logistical demands of a two-front war. Shipments of heavy ground weapons, partly for outfitting Cuban mechanized brigades, were also large. They included another 250 medium tanks, over 500 armored cars, 360 large-caliber artillery pieces, and a dozen more radar-controlled ZSU-23/4 antiaircraft weapons. (S NF)

Still to be delivered under some $800 million dollars of unfilled orders are jet fighters, naval craft, and mechanized heavy ground weapons. Most of the Soviet arms to Ethiopia are discounted at half the stated list price, although preliminary review suggests that some list prices may be higher than charged other Soviet-LDC clients in recent years. While some goods require cash on delivery, most payments are due in hard currency in 10 annual payments (some of which Libya apparently has agreed to cover). (S NF)

Besides weapons, the Soviets contracted to expand and modernize Ethiopia's military facilities and to step up the training of its armed forces. Early in 1978, 16,500 Cubans and 1,300 Soviets were instructing Ethiopians in the use of modern weaponry as well as directing military logistics and communications in the Ogaden and Eritrea. Further, some 900 officers and enlisted men were enrolled in military courses in the USSR for instruction in the operation and maintenance of aircraft, air defense missile systems, naval vessels, and related support equipment. Ethiopian officers also attended Soviet command schools. (S NF)

Meanwhile, Soviet technicians converted several dirt airstrips into modern, well defended jet fighter bases, while others supervised expansion of port facilities at Assab and construction of military training bases at nearby Kholette. Soviet construction of a naval facility at Assab for Moscow's use is scheduled to begin in the near future. While the facility is not necessarily essential to the operations of the Soviet fleet, it will increase Soviet prestige and presence on the strategically important Red Sea Strait and make Soviet naval operations in the area more efficient. A floating drydock (previously located in Somalian waters, and then in South Yemen) also was moved into Ethiopian waters by Soviet tugs. (S NF)

Rumors that the September 1978 economic and technical assistance agreement carried $2-3 billion of new credits have been discounted. The accord is a general framework agreement typical of others signed by Moscow in the past several years. The September economic agreement called only for formation of a joint commission to oversee existing Soviet economic activities and to study expansion into new areas. Aid

for projects that are studied will be provided on an individual basis. The $80 million outstanding from a $100 million line of credit arranged in 1959 probably will be drawn before the Soviets proceed with large new binding commitments. In the meantime, Moscow has not initiated any major new aid projects and has refused Ethiopia's request for a steel mill and other heavy industrial projects. The Soviets recommend instead that Ethiopia focus on agricultural development. Soviet aid now falls under a May 1977 protocol that allowed Ethiopia to draw the 1959 credits—$15 million for commodities and additional sums to expand the Soviet-built Assab refinery by 75 percent and to install a pipeline and oil storage depots in outlying areas. New commitments for agriculture and irrigation projects, now being surveyed in the Awash valley, would require at least $300 million of credits. (S NF NC)

East European countries responded to Ethiopia's requests for assistance: (a) $200 million from East Germany for expansion of the Assab port, construction of a petroleum pipeline, and possibly a railroad; (b) $45 million from Czechoslovakia; and (c) $55 million from Bulgaria, Hungary, and Romania. (S NF NC)

China, formerly Ethiopia's most active Communist donor, let its program slip because of Ethiopia's Soviet-inspired attacks on Chinese Third World policies. (S NF NC)

Growing Communist interest in Ethiopia in 1978 led to a doubling of European Communist economic personnel. The 1,400 technicians included 450 Soviet teachers and administrative personnel, 300 East Germans, and 500 Cubans mostly in medical services. (U)

Ethiopia also sent more than 700 first-year students to the USSR in 1978 for academic training, bringing the Ethiopian contingent in Soviet universities to over 1,500. Cuba complemented the Soviet program with 1,260 new scholarships to Ethiopian elementary and secondary school pupils for study on the Isle of Pines. (U)

Guinea

The heyday of Soviet-Guinean economic relations may have passed as President Toure tries to project a nonaligned image and attract more Western aid. The new political stance affected both military and economic programs in 1978:

- Moscow's TU-95 aircraft refueling privileges and overflight rights were canceled.
- Soviet access to Conakry harbor was limited.
- Soviet offers to construct a floating drydock were turned down.
- Some Soviet military and economic personnel were expelled. (S NF)

Moscow apparently was caught by surprise at the expulsion of 60 of its military advisers in November. About 100 Cubans, who had trained the Guinea militia and serviced MIG aircraft, also were expelled. Earlier in the year, Conakry had signed about $10 million of military agreements with the USSR—the most important, a June pact for an escort vessel and two used Shershen-class patrol boats (Guinea's first). Even though Moscow delivered several MIG-17 aicraft and agreed to construct a $6 million military camp for a tank battalion, future Soviet-Guinean military relations are questionable, and Conakry has already approached other suppliers. (S NF NC)

Economic programs languished as well as Conakry expressed resentment over 15 years of ineffectual Soviet assistance and Moscow failed to offer new assistance for a program that was running out. The number of technicians fell 10 percent, to 450, reflecting Guinea's refusal to renew contracts for the 1978-79 academic year of 55 Soviet teachers in Guinean universities, high schools, and technical institutes because of the teachers' lack of fluency in French, and poor teaching skills. A few were accused of political activities and black market operations. (S NF NC)

East European relations, never robust, became especially tenuous after Guinea switched to hard currency payments. Only Romania offered development assistance in 1978, for an oil refinery at Conakry and a bauxite venture, to be financed by unnamed OPEC countries. China, with a long aid history in Guinea, did not announce new assistance, despite the small balance (about $3 million) remaining from the $83 million of Chinese aid. (S NF NC)

Mali

Military assistance remained the dominant thread in Soviet-Malian relations, even though Bamako has shown signs of wanting to reduce its dependence on Soviet military supplies. The execution in October 1978 of Mali's minister of defense, a major proponent of Soviet military supplies, could have an adverse effect on the relationship. (S)

Mali continues to make airport facilities (most of them built by the Soviets) available to the USSR for its ventures in southern Africa, largely in exchange for military supplies. In the traditional Independence Day parade in September, Mali displayed 38 new Soviet tanks, MIG aircraft, tanks, and armored vehicles, much of it delivered under 1977 agreements. (S)

Even though Mali's modern equipment impressed its neighbors, Moscow's $800 million of military transfers in 1974-78 did not appreciably increase Mali's combat effectiveness. Much of the equipment is stored far from the borders and is inappropriate for reconnaissance or defense. The lack of cash required for spare parts has grounded some aircraft and threatens to immobilize others. (S)

Malians continue to grumble about inadequate Soviet economic assistance. Moscow's effort is largely confined to development of the Kalana gold mine and provision of doctors and teachers, who are compared unfavorably with Chinese and French personnel. (U)

China, which has disbursed most of its $100 million commitment to Mali for agriculture and light industrial projects, is formulating a new blueprint for charting its program in the next decade. (U)

Mozambique

Mozambique's ties with Communist states, which date from military support provided prior to independence from Portugal, have grown along with its dependence on Communist suppliers to maintain its military establishment. Economic aid from Communist countries, centered on technical services, has been disappointing. (U)

Arms deliveries to Mozambique from the USSR and East European countries rose to a record $84 million in 1978, even though new agreements were valued at only $11 million. The USSR delivered Mozambique's first SA-3 surface-to-air launchers, missiles, and associated equipment for border defense. Mozambique's $100 million Communist inventory, delivered since 1975, has not permitted Mozambique to maintain a secure frontier. Rhodesian forces still mount cross-border operations against guerrilla camps in Mozambique at will. When operational, the SA-3s will supplement antiaircraft artillery and hand-held SA-7 missiles to improve protection of Mozambican air fields from Rhodesian attack. Because of Mozambique's lack of experience with this equipment, Soviet technicians will operate the SA-3s for some time. Soviet military technicians in Mozambique in 1978 numbered 230. Maputo also received helicopters, tanks, artillery, and small arms from the USSR and Eastern Europe. (S NF NC)

Cubans have been instrumental in Moscow's training and maintenance program in Mozambique. The Cuban military presence rose sharply in October with the introduction of 400 troops from Angola and Ethiopia. These personnel, sent to strengthen border defenses, are equipped with antiaircraft weapons. Some 400 other Cubans were in Mozambique serving as advisers and technicians. (S)

Communist countries have committed more than $160 million in economic credits since 1975, but the program still is heavily focused on technical assistance rather than deliveries of equipment and materials. Nearly 1,300 Communist economic technicians, most of them paid for in hard currency, were stationed in Mozambique in 1978. Aid disbursements have averaged about $10 million per year. China, with nearly $60 million in credits, has been one of Mozambique's largest donors, but no projects have been initiated under the 1975 credit agreement. (C)

Some Communist activity is to help stem the decline of the formerly thriving agricultural sector. Together this past year, Bulgaria and the Soviet Union began work on the Limpopo Basin development project. Bulgaria plans to complete the Massinger and Mapai Dams and install a 40-MW power plant at the Massinger Dam in Limpopo Basin. Bulgaria also signed a contract to construct the Maputo–Cabo Delgado highway under a 1977 agreement. Moscow also pursued geological

surveys and the equipping of technical schools. East Germany conducted studies on new projects to be implemented under a 1977 agreement including agricultural development, mineral exploration, fishing, high-tension power lines, a textile plant, and a truck assembly plant. Hungary delivered 50 buses to Maputo probably under a 1975 agreement. (U)

Nigeria

Nigeria's relations with East European governments warmed in the wake of new cooperation agreements in 1978, while relations with the USSR and Cuba deteriorated after Shaba II. (U)

Soviet military relations with Nigeria, which grew out of Moscow's support during the Biafran insurgency in 1967, have cooled in the past several years because of concern in Lagos over Soviet policy in Africa. Since the $75 million aircraft sale in 1974—Nigeria's largest order from the USSR—the Soviets have sold only SA-7 surface-to-air missiles and spare parts to the Nigerian armed forces. Even though Nigeria's military establishment remains basically Western-oriented, it continues its interest in Communist military supplies. Discussions with Poland and Yugoslavia led to offers of tanks, the latter of US origin. (S NF)

While Moscow's military presence dropped off, its civilian presence increased to 1,100, represented mostly by technicians working on a $137 million petroleum pipeline. The entire 800-km pipeline was scheduled for completion by yearend 1978, but the USSR reportedly was running eight to 10 months behind schedule and was able to hand over only the first section of the line in 1978. (S NF)

Plans and designs for the Ajaokuta steel mill, the most important Soviet project in Nigeria, reportedly were completed in November. The two sides still are deadlocked on costs with the Soviets quoting $900 million for the project and the Nigerians insisting they will not go above $600 million. (S)

In contrast, East European countries polished their image in Nigeria with a series of new agreements:

- Bulgaria signed an economic cooperation agreement which set up a joint commission to study projects in agriculture, food processing, and public housing.
- Czechoslovakia agreed to provide teachers and other experts under a September agreement.
- Hungary extended the life of a $26.0 million 1974 credit for hospital equipment, nearly 25 percent of which has already been contracted for.
- Poland is to send 300 experts to Nigeria and admit 300 Nigerian students annually to Polish universities and technical schools under a two-year technical agreement signed in March.
- Poland and Romania signed agreements to barter goods and services for Nigerian oil, an agreement which Nigeria is no longer anxious to implement. (U)

Warsaw discussed cooperation in shipbuilding, port development, mining, and agriculture, with Nigeria—Poland's largest sub-Saharan African trading partner—and a joint economic commission was created to explore project possibilities. Romania focused on plans for a new joint shipping line and fishing venture, and also put forward proposals for participating in a number of projects including (a) an oil refinery, (b) petrochemical plants, (c) agricultural projects, (d) a cement plant, and (e) rural electrification. Until now Romania's largest undertaking is a $35 million wood-processing complex while Poland's major contribution has been to coal mining. (C)

Somalia

A year after the abrogation of the Soviet-Somalian Friendship Treaty, President Siad's search for alternative sources of arms had yielded few results. A number of Western suppliers indicated that they would sell equipment to Somalia once the situation in the Ogaden was normalized. In the meantime, small amounts of assistance came from (a) Saudi Arabia, which purchased upwards of $15 million of Soviet-type small arms and ammunition for Somalia from commercial dealers in Hungary and Poland last year, and (b) Egypt, which shipped spare parts from its Soviet-supplied inventory for Somalia's air defense and ground forces equipment. The Saudis and other sympathetic Middle East sheikhdoms financed the purchases and allowed use of their ports and airfields

to channel the arms into Somalia. Somalia's Air Force remains largely grounded, however, because of spare parts problems. (S NF)

In April 1978, President Siad traveled to Beijing to deliver in person a request for emergency military and economic assistance. The Chinese offered training and technical assistance but only nominal amounts of military hardware, which was delivered to Mogadishu shortly after Siad's visit. The deliveries included a number of unidentified military vehicles, artillery, antiaircraft guns, small arms, substantial quantities of ammunition, and spare parts for repairing Soviet armored vehicles. Arrangements for small amounts of additional Chinese military aid likely were formalized during visits of two high-level Chinese delegations to Somalia in July and November. (S)

While not completely filling the gap left by the departure of the 1,000 Soviet and East European technicians, China maintained its 3,000-man presence of the year before and agreed to provide $18 million of aid to finish abandoned Soviet projects. It also agreed to construct a $20 million highway between Borama and Djibouti under a $109 million 1971 agreement. This highway will connect with an Arab built road between Hargaisa and Borama. Road crews were transferred from the Belet Uen-Burao road project that was completed in August. Romania, the only East European country still active in Somalia, signed a protocol to provide assistance in agriculture, forestry, and fishing. The more than $100 million in new aid commitments from the Arab states in 1978 were equal to 60 percent of the entire 15-year Soviet economic aid commitment. (S NF NC)

Not only did work on Soviet projects, valued at $65 million stop, but Somalia recalled 370 university students from the USSR, afer accusing Soviet authorities of cutting off their living allowances. (S NF)

Tanzania

Arms contracts with the USSR, totaling $275 million, are the most important link in the Soviet-Tanzanian relationship. Despite Dar es Salaam's suspicions of Soviet motives, Moscow has been the only supplier willing and able to provide the modern weapons Tanzania has felt it needed to counter Uganda and potentially to support Mozambique against Rhodesian incursions. (C)

While no new military agreements were signed in 1978, contracts were signed under a 1977 agreement for (a) 20 Soviet SA-6 medium-altitude antiaircraft missile systems, Moscow's first to a sub-Saharan country, (b) 18 BM-21 rocket launchers, (c) SA-7 surface-to-air missiles, (d) artillery, and (e) communications equipment. (S NF NC)

Tanzania bought some small arms and landing boats from several East European countries, and Beijing furnished $4 million worth of small arms and other equipment. China also agreed to build a plant in Tanzania to manufacture these weapons. (S NF NC)

The Soviet Union, never really active in Tanzanian development, signed small contracts under a 1977 credit for constructing state farms in Ruvumu and Morogoro and made slow progress on a dam and power plant under earlier credits. While the 15-year-old Soviet economic program languished, China continued to draw on the reservoir of good will remaining from its efforts on the Tan-Zam railroad. Despite a chill in relations caused by China's military support to the unpopular Mobutu regime during the Shaba invasion in May, a thousand Chinese technicians worked in Tanzania on agriculture and mining projects. In September a protocol to the $75 million 1974 Chinese agreement was signed to develop a 300,000 ton coal mine with associated power plant and to construct a party headquarters building. China refused, however, to build a rail line from Arusha to Musoma. (S NF)

East European countries became more active in the economic sphere, with an unprecedented $30 million in new credit extensions in 1978, bringing their total commitment to $50 million. East German and Polish credits for a joint venture textile plant project at Mbeya totaled nearly $20 million, while Hungary extended $10 million for machinery and equipment purchases. Cuba, which has maintained an aid presence in Tanzania for nearly five years, signed a protocol to a 1974 agreement to assist in fisheries, agriculture, and public health. More than 200 Cuban workers worked on Tanzanian projects during 1978, a fifth more than the combined number of Soviets and East Europeans. (S NF NC)

Zaire

The escalation of the Shaba conflict (which Zaire suspects was fueled by the Soviets, East Germans, and Cubans), dominated Kinshasa's relations with Communist powers in 1978. (U)

China, trying to capitalize on Zaire's mistrust of Moscow and Eastern Europe, was the only Communist country to support President Mobutu's government against the Katangan secessionists. Emergency small arms and relief assistance were rushed to Zaire during the invasion, for a yearend total of $6 million of hardware deliveries which included two Shanghai gunboats and 20 medium tanks. China also agreed to provide 18 artillery pieces, ammunition, trucks, and spare parts for Chinese-made patrol boats, and to train Zairian personnel in China on artillery, patrol boat operations, and counterinsurgency techniques. (S NF)

On the economic side, China accelerated work on a sugar plantation and refinery under $100 million in credits and held discussions on a sports complex. Other Communist activity was restricted to joint trading companies, although Romania signed an economic agreement in August under which Zaire requested projects in agriculture, fishing, forestry, mining, and pharmaceuticals, valued at $150 million, for its next five-year plan (1981-85). (S NF NC)

Zambia

President Kaunda remains suspicious of Soviet arms in southern Africa. In the absence of support from the West, however, he has been forced to reconsider Moscow's persistent offers to upgrade Zambia's defenses against more frequent Rhodesian raids. While Zambia prefers Chinese to Soviet military aid, Beijing is not able to provide a wide variety of modern weapons on short notice. Zambia took delivery of only 12 additional F-6s (MIG-19s) from China in mid-1978 under a 1977 contract. Early in November, the USSR reportedly offered MIG fighters, antiaircraft missiles, and tanks, as part of a $200 million package to rebuild Zambian defense forces on the Soviet model. Zambia would have difficulty paying for the equipment, even on credit, and President Kaunda thus far has refused to accept the large number of Soviet military personnel in Zambia that such an effort would entail. Kaunda may ultimately accept certain Soviet equipment to improve Zambian defenses against Rhodesian cross-border strikes. (S NF NC)

Meanwhile, Moscow delivered about $2 million worth of arms including field artillery and armored personnel carriers under old accords. Approximately 100 Cubans already are working in Zambia with Zimbabwe or Namibian insurgents. The transfer of large numbers of Cubans from Angola to Zambia to train and advise ZAPU remains doubtful, because Kaunda is resisting such an influx, under present circumstances. (S NF)

At the request of the Tan-Zam Railroad authorities, Chinese personnel were brought back to Zambia in 1978 to operate the line because local personnel failed at the job. The railroad (China's largest construction project in the Third World) though officially handed over to Tanzanian-Zambian control in 1976, was to be staffed by 1,000 Chinese technicians for two years. As local personnel completed their training, Chinese technicians had been withdrawn. In 1978 China also continued its assistance to agriculture and mining under a $51 million credit. (U)

Moscow has completed most deliveries under its $6 million credit, and East European countries are more active in Zambian development. Romania announced plans to establish a cold storage plant, a tractor assembly plant, a textile plant, a ceramics plant, and a shoe factory under an unused $50 million credit agreement, signed in 1972. Czechoslovakia provided a $12 million loan to Zambia for industrial development. (U)

Other Sub-Saharan African Countries

Benin. President Kerekou's radical regime in Benin tried to consolidate its Marxist image, strengthen Benin's military capability in 1978, and capitalize on the access granted Moscow since the mid-1970s, to its ports and airfields for expanding Soviet activities in Western Africa. Even though the USSR still may agree to Benin's request for torpedo boats to replace low-performance Soviet craft provided by North

Korea, no new arms accords were signed. Soviet deliveries remained at about $3 million for one AN-26 and one AN-2 transport plane. (S NF)

China remained Benin's only active Communist economic aid donor, and 225 Chinese were working on a stadium and agricultural projects. While new economic cooperation agreements were signed with East Germany in June, and with Bulgaria, Czechoslovakia, Hungary, and Poland in September, these did not carry project commitments. The USSR agreed to provide equipment for an experimental farm under a 1974 agreement and Romania discussed aid to agriculture, light industry, mining, and petroleum. (U)

Botswana. Botswana's two-year aid relationship with China—which until 1978 was based on a small grant of military equipment for Botswana's new defense force—received a shot in the arm as Beijing allocated $16.6 million of development credits under a 1976 agreement. At yearend, Botswana showed interest in a Chinese offer of doctors but was not expected to act on Moscow's offer to send teachers to Botswana. (U)

Burundi. Communist aid patterns in Burundi did not change in 1978 despite a number of new Communist proposals to develop Burundi's minerals. China, the major Communist donor, maintained technicians on a textile complex and hydropower project, while work on the proposed Bujumbura-Rutovo road remained stalled over a technical services dispute. (C)

Romania signed a protocol in November for additional projects in agriculture, industry, mineral development, and power to complement existing joint ventures: (a) a mining venture, which began operations in September and (b) an agricultural company which planted 10,000 hectares in foodgrains and cotton in 1978. (U)

Meanwhile, a Soviet team will replace Romanians, being phased out because of disagreement over payment arrangements, in prospecting for zinc, lead, tungsten, copper, molydenum, and tin. At yearend, Burundi also was considering a Cuban offer—possibly under an economic cooperation agreement signed in 1976—to develop nickel deposits which, according to the United Nations, are extensive. (C NF)

Cameroon. Cameroon continued to draw on more than $100 million of Chinese credits for building power transmission lines from the Lagdo dam as part of a rural electrification project. (U)

Cape Verde. Moscow's presence in Cape Verde increased markedly in 1978, largely because of President Pereira's decision to establish a separate Cape Verde military establishment, independent of Guinea-Bissau, with Soviet equipment and training. Cape Verde bought $2 million worth of military equipment from Moscow in 1978, and received deliveries (trucks, small arms, and ammunition) of about half that amount under a 1976 accord. Equally important, the Soviets sent their first military advisers to the islands in March to instruct recruits and maintain aircraft; by September, the contingent had reached 50 and 240 Cape Verdeans had gone to the USSR for training. About 15 East Europeans and several Cuban military personnel also were in Cape Verde. Hoping to obtain a favorable decision on a request for port and fishing rights, the USSR agreed to meet all of Cape Verde's petroleum requirements (estimated at $2.5 million annually) in September with a 16-year credit for petroleum products. Cape Verde, however, turned down Moscow's offer to construct a 530-kW electric power plant at Mindelo because it could not maintain the plant. Cape Verde took up its first Chinese aid offer—a much needed government assembly building on which construction was expected to begin in March 1979. Beijing also is considering a $500,000 agricultural loan, possibly under an economic agreement concluded in 1977. (S NF)

Central African Empire. Relations between Moscow and the Central African Empire deteriorated in the wake of the Shaba invasion because of President Bokassa's suspicions over the Communist role. The $8 million military program already had suffered late in 1977 after Bokassa expelled a Soviet helicopter team in a payment dispute. French assistance remains the Central African Empire's most important source of economic and technical aid, and the USSR and China have concentrated their programs on technical services. In 1978 some 225 Soviets and 80 Chinese personnel were working in the CAE. (S NF)

Chad. Soviet relations with Chad continued to falter in 1978 because of the use by Muslim insurgents of Libyan-supplied Soviet weapons to invade northern Chad and Moscow's continued failure to supply spare parts and ammunition to government forces. No new arms agreements were signed with the Soviets and Chad took delivery of only small amounts of ammunition under a 1976 agreement. At the same time, the number of Soviet military personnel in Chad was reduced from 20 early in 1978 to about five in October. Chad continued to rely on the West, particularly France, which has played the most active role against guerrilla forces. (S)

Chad complained last year when Moscow increased the price of Soviet personnel, and other frictions spilled over into Moscow's small technical assistance program when Chad refused to pay even local costs for the 50 Soviet teachers and doctors in residence; by yearend 30 Soviet civilian technicians still were in Chad, at Soviet expense. China, Chad's favorite Communist donor, gave $360,000 worth of medical supplies as a gift, and promised to study a rice processing plant, a 150-bed hospital, and water wells. Work on major projects planned under a 1973 agreement—a stadium and bridge—is scheduled to begin in 1979. (C)

Comoros. The Comoros turned down a large Soviet aid package offered in return for use of the Hahaya airfield on Grande Comore Island and the deep water anchorage in Anjouan Bay. (C)

Congo. China continued work on its major project in Congo, the Bouenza Dam and associated rural electrification, while the Soviets continued geological exploration. Late in 1978 Cuba completed Congo's first experimental cattle farm and made plans to open 14 more. Activity is focused on improvement of local breeds, with Cuba already donating several varieties of beef and dairy cattle to the project. During a joint economic commission session early in 1978, Romania signed only a general agreement to continue economic cooperation. The Congo has been dissatisfied with Romanian agricultural assistance because of low crop yields. It also has complained about slow progress in the construction of a synthetic fiber plant at Kinsoundi, for which Romania has delivered $20 million of equipment. (C)

Djibouti. The USSR and Djibouti established embassy-level diplomatic relations on 3 April 1978. (U)

Equatorial Guinea. In 1978, Equatorial Guinea took delivery of one YAK-40 transport aircraft from the USSR under $9 million in agreements. The number of Cuban military advisers supporting the Soviet program decreased to about 40 in 1978 (from an estimated 260 in 1977), as Moscow scaled down deliveries. On the other hand, Communist economic advisers remained in force. About 500 Soviets were present to support Moscow's extensive fisheries operations out of the port of Luba. At least 100 Cuban medical, educational, and construction personnel were in Guinea. China, the only large Communist aid donor (with a $24 million aid commitment), employed 2,000 personnel on extensive infrastructure projects. (S NF NC)

Ghana. The bloodless coup which brought a Western-oriented government to power in Ghana in July did not affect Communist economic programs, although military deals apparently were shelved. Accra's most important Communist agreement in 1978 was a $42 million East German credit for machinery and equipment—Ghana's largest ever from Eastern Europe. Bulgaria will provide credits for agriculture, fisheries, and light industry, and Hungary signed contracts to supply port cranes. China, still the most active Communist partner in Ghana, continued work on the $13 million Afife irrigation project, and Chinese technicians arrived to study a glass plant, a sugar plantation, and a refinery—probably under an unused $22 million 1964 credit. Beijing also offered assistance to construct a rice mill and a ceramics factory and completed a spinning mill it had built for a private Ghanaian firm. Other than continuing work on a concrete panel plant, the Soviets made no progress in their program as Ghana refused cash payment for Soviet technical services needed to rehabilitate Nkrumah-era projects. (S NF NC)

Ghana played host in 1978 to its first Cuban delegation since Nkrumah was overthrown in 1966. Trade in sugar and timber was discussed, and Cuba will consider sending experts to bring Polish- and Czech-built sugar plants up to capacity operation. (U)

While maintaining cordial relations with other Communist countries, the pro-Western leadership of Gabon continued to reject ties with the USSR and Cuba because of their threat to African stability. Beijing maintained the only Communist aid presence in Gabon, under a $25 million agreement. Gabon reportedly had discussed Chinese participation in Gabon's railway construction program, but has not yet acted on Romania's $290 million credit offer (its largest to a Third World country) for constructing part of the Trans-Gabon railway. The Romanians would accept repayment over 20 years in petroleum, iron ore, and other metals. (C)

Guinea-Bissau. The growth in Western economic assistance has begun to erode Communist, particularly Soviet, influence in Guinea-Bissau, while military ties remain strong. (U)

Guinea-Bissau received about $2 million of military equipment from the USSR in 1978, which included three MIG-4 helicopters. The only economic agreement signed with the USSR in 1978 was a fisheries agreement which created discord. According to the President, Moscow did not supply enough fish to the local market nor did it train local fishermen or allow Bissau a net return on its investment. (S)

Communist academic training remained one of the most viable programs in 1978. All but 30 of Guinea-Bissau's 235 students who have returned from foreign study were trained in Communist countries and two-thirds now studying abroad are in Communist institutions. (C)

Kenya. The death of longtime Kenyan leader Jomo Kenyatta in August did not alter Kenya's suspicious attitude toward Communist countries. Even though Kenya officially supports Ethiopia in the Ogaden dispute because of similar Somali claims to Kenyan territory, Nairobi has decried the Soviet involvement in Ethiopia. Kenya has not responded to Moscow's $6.7 million proposal to renovate the Mathare hospital or to expand the Soviet-built hospital in Nairobi. In 1978 Kenya finally rejected a Soviet offer to help develop florite in the Kerio Valley. Nairobi continues to study Chinese offers of a stadium and rice-production projects. (C)

Lesotho. Lesotho was preparing to recognize Cuba at the end of 1978 as a result of a Cuban delegation's visit at midyear. (U)

Liberia. China has been the major beneficiary of Liberia's initiative to improve relations with Communist countries and improve Liberia's nonaligned credentials. About 200 Chinese are in Liberia working on former nationalist Chinese sugar projects. During President Tolbert's visit to the People's Republic in June, China agreed to provide at least $23 million of credits under a 1977 agreement for three radio transmitters, agricultural products, and a stadium. China also agreed to establish an alcohol plant at the sugar mill Beijing took over from Taiwan in 1977. Unlike many other Chinese agreements, Liberia will fund local costs, while China will provide designs, equipment, and some building materials. (C)

Madagascar. Madagascar's eastward drift was underlined in 1978 with a $55 million Soviet military agreement—Madagascar's largest ever with a military supplier—for 12 MIG-21 jet fighters, training, and in-country technical assistance. Antananarivo had negotiated a similar accord in mid-1977 in exchange for partial Soviet access to the port of Diego Suarez. The deal was canceled because of fears of increased Soviet influence. In 1978 North Korea (the only other Communist supplier) loaned Madagascar four MIG-17 fighter aircraft, based at Diego Suarez, and delivered about a million dollars' worth of materiel, including 18 antiaircraft guns. (S NF)

Moscow also provided nearly $6 million of new economic assistance—about half of it grant aid for a YAK-40 aircraft and 200 tractors, all delivered late in the year. Soviet technicians were active in surveys for a cement plant, a flour mill, and a broadcasting station, to be financed under a 1974 credit. (U)

China, still Madagascar's largest Communist donor, moved slowly on major projects to show its disapproval of Antananarivo's closer Soviet ties. Nonetheless, Beijing began equipment deliveries for resurfacing the Tamatave-Moramanga road, Beijing's largest project under a $55 million 1975 credit. A Chinese medical team also arrived at midyear to serve at the Chinese-built medical center at Vatomandry. (U)

Romania discussed projects which, if implemented, would place Romania among Madagascar's top donors. They included revamping the Tamatave oil refinery to allow diversification of output, exploitation of iron ore in Soalala, a 5,000- to 10,000-hectare agricultural complex, a vehicle assembly plant, an iron smelting plant in Moramanga, road improvement, and thermal power plants. (S NF)

Mauritius. The USSR did not improve its position in Mauritius in 1978, despite early signs of a more upbeat relationship. Soviet accords with private Mauritian firms for drydock repairs and bunkering of Soviet fishing vessels (to be paid for in hard currency) were not operational; Mauritius had let its fisheries agreement with the USSR lapse the previous year because the Soviets did not supply enough fish to the local market and failed to fulfill training obligations. Mauritius also accused the USSR of pillaging the Sayha de Malha banks, claimed by Mauritian as part of its territorial waters. Mauritanian ship chandlers nonetheless continued their brisk business with Soviet merchant vessels. (C)

China still has not begun work on an airport promised under a 1972 agreement because of the near tripling of original cost estimates. Since Beijing's $30 million offer was made, inflation has pushed estimated costs into the $70-100 million range, which now raises doubts about the airport's viability. (C)

Rwanda. Rwanda and China signed a new economic and technical agreement in June 1978 calling for studies of a hospital, sports stadium, flour mill, and ceramics plant. These projects would require additional credits, as funds from the $22 million agreement of 1972 are nearly exhausted. China also opened an economic and trade exhibit in Kigali in July, the first foreign exibit ever staged in Rwanda. (U)

Seychelles. China and the USSR are vying for influence in the strategically located Seychelles, off Africa's east coast. In 1978, the Seychelles received its first deliveries of Communist weapons: (a) $200,000 worth of Chinese small arms, ammunition, vehicles, and communications gear as grants; and (b) $2 million of Soviet equipment including six BRDM-2 armored vehicles, two naval patrol boats, and RPG-7 portable rocket launchers. Although there were still no Communist military advisers on the island in 1978, they will be needed for instruction in the operation and mainte- nance of the more modern equipment. (S NF)

The Seychelles also received its first Communist economic aid in 1978, a $3.5 million grant from China for a school on Mahe and a commitment to assist in rice cultivation. In contrast, Seychelles President Rene turned down a Soviet offer for a second time for broad-based fisheries cooperation. The Soviets had asked for exclusive port rights at Victoria and onshore cold storage facilities for the Soviet fishing fleet in return for training and technical assistance. (C)

Senegal. Chinese and East European relations with Senegal remained warm in 1978 despite President Senghor's hostility toward Soviet initiatives in Africa. Senegal campaigned against the Soviet/Cuban military presence in Africa but accepted a donation $120,000 worth of wheat for drought relief from China, its largest Communist donor. It also signed a protocol under a $35 million Polish agreement of 1976 for assistance to chemical production (particularly phosphorous fertilizers), food processing, energy, and light industry. Warsaw also formed a partnership with a local firm to increase trade with Senegal in equipment for the chemical industry and raw materials. Bulgaria agreed in October to provide aid for agriculture, mining, and geological prospecting, while Romania signed a protocol calling for cooperation in developing agriculture, electric power, industry, and mining. (U)

Sierra Leone. China remains the most important foreign aid donor to Sierra Leone with a $40 million credit agreement which has financed a stadium, two bridges, and 13 agricultural stations. The National Trading Company, the sole importer of Chinese goods, has recently expanded and will buy more of the popular lower cost Chinese goods. The only Soviet venture in Sierra Leone is a joint fishing company, and Moscow again is pressing Freetown to sign a 10-year fisheries agreement, to include construction of a harbor and shore facilities. (U)

Sao Tome and Principe. Communist aid to Sao Tome and Principe (mostly from China) far outshadows assistance from other sources, and Communist influence is pervasive. During 1978, China pledged $17.6 million in development credits to carry out a December 1975 agreement for rice cultivation, hydropower development, and medical assistance. Moscow's interests are represented by a Cuban technical assistance program that has brought 140 doctors, teachers, and construction workers to Sao Tome. Cuba completed two apartment buildings in 1978 under this program. (U)

Sudan. Soviet-Sudanese relations, broken off in 1977 with the expulsion of Soviet military advisers, did not improve much in 1978 even though diplomatic relations were resumed. Soviet influence in Sudan had stemmed from an $87 million military program; Sudan now apparently is buying spare parts from other Communist suppliers. In 1978, Poland offered Sudan nearly a million dollars' worth of Soviet-designed helicopter engines and power plants for T-55 tanks; we do not know whether the offer was accepted. Numayri still resents Moscow's complicity in Ethiopian and Libyan military aid to Sudanese dissidents. (S NF)

New Communist pledges of economic aid in 1978 came mostly from Czechoslovakia under a new $24 million credit for housing and other equipment. China and East Germany provided small amounts of relief assistance, and Poland agreed to deliver $12 million of electrical equipment under credits provided in 1977, and a $3 million dockyard in Khartoum under a commercial contract. (C)

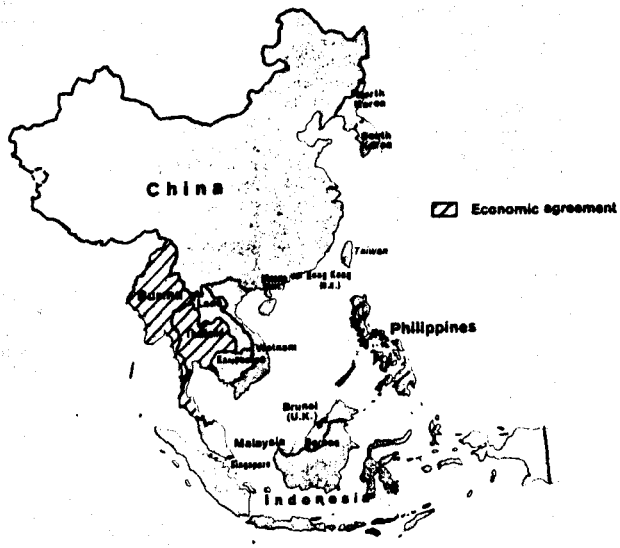
Despite Eastern Europe's recent $160 million in new credits, China is still Sudan's most effective Communist donor. Chinese technicians completed the second stage of the Hasahaisa textile mill in June and began preparations for a clothing factory associated with the plant. Chinese fisheries development projects at An-Nubah lake, being financed under a $40 million agreement, also neared completion. Assistance has included 40 fishing boats and two cold storage plants. (U)

Togo. Despite fears of Soviet subversion in Africa, Togo continues to send students to the USSR and in June signed an economic agreement which may lead to Soviet development projects in Togo. East European countries also became more active than before: Hungary signed a $10 million contract for phosphate mining equipment, and Poland was considering participation with a number of Western countries in a $250-300 million phosphoric acid fertilizer facility in Togo. China began construction of a long-awaited $6 million dam and irrigation complex on the Sio River, under a $45 million 1972 agreement. The project will irrigate 660 hectares of rice on completion in 1980. A similar North Korean project on the Mons River seemed headed for failure because of low water levels during the dry season. (U)

Uganda. Despite a shortage of qualified pilots, in 1978 Uganda took delivery of five Soviet MIG-21 and three MIG-17 aircraft under a 1977 agreement, valued at about $14 million. Moscow also airlifted technical equipment to Kampala early in the year, while turning down Amin's request for weapons and MIG-21 pilots for its confrontation with Tanzania. On the economic side, Moscow's agreement on minerals prospecting was far outweighed by a Chinese $35 million contract for a textile mill. The contract value does not include installation fees, and the terms are unusually hard for a Chinese credit—25 percent down, with the remainder repayable over nine years at 5-percent interest. (S NF NC)

Upper Volta. A $48 million Chinese credit, signed in 1973, is Upper Volta's largest Communist aid pledge. During 1978, China handed over a second rice project, at Banfora, and provided $200,000 cash for drought relief. The USSR, never a big donor, gave Upper Volta medicines and six 5-ton trucks to carry supplies to drought victims in 1978. (U)

Figure 7: EAST ASIA
Communist Agreements with LDCs, 1978



Agreements, 1978 (million US $)

	Economic
EAST ASIA	170
Burma	140
Philippines	30
Thailand	NA

0 1500 Kilometers
0 1000 Miles

Secret *NOFORN-NOCONTRACT*

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East Asia

General

East Asia, traditionally an area of commercial interest for major Communist aid donors, received $170 million in economic assistance from Eastern Europe in 1978—all for Burma and the Philippines—as part of Eastern Europe's attempt to erode Western and Japanese dominance of the Asian market. (U)

Burma

Burma received a $140 million, 16-year, 2½-percent Czech credit—Rangoon's largest credit from a Communist country—for expanding a Czech-built tractor plant at Malun and setting up plants for diesel pumps and tires. Nonetheless, Burma's relations with China overshadow all others, because of their long common border. Even though China pledged no new aid, it agreed to go ahead with a $10 million stadium under $57 million of credits reinstated in 1971. (U)

Fiji

A Chinese team studied a possible $20 million aid package for Fiji which would include assistance for handicraft production, hydroelectric power, rice cultivation, and rural road improvement. (C)

Indonesia

Despite continuing coolness in political relations, 10 Soviet engineers and geologists were dispatched to Indonesia to study a proposed $100 million power plant in Mrica, Central Java, under a $2.3 million contract signed in March 1978. Moscow has offered financing for the 800-MW plant and a second plant is under consideration. (S)

Indonesia turned down a Romanian $50 million credit offer for oil industry development which required repayment in gold over a 10-year period with 6-percent interest. Jakarta also did not accept a Hungarian offer of $100 million worth of foundry, forging, and casting machinery for a motor manufacturing complex but expressed interest in a Polish offer to provide coal, petrochemical, and fisheries technology. (S NF NC)

While Jakarta tried to expand its trade with Eastern Europe, it refused to reopen direct trade with China because of Beijing's continuing support for Indonesian Communist exiles and concern that Beijing would use this as entree into Indonesia's large Chinese community. Indonesia probably will continue its practice of buying Chinese rice—about $150 million annually—through Asian brokers. (C)

Yugoslavia is Indonesia's only Communist military supplier. In 1978, Jakarta purchased a destroyer escort training ship and ammunition from Belgrade, and expressed interest in establishing an armaments factory with Yugoslav aid. (S)

Malaysia

Malaysia improved its relations with China despite several unresolved issues. Malaysian-Chinese trade was brought into closer balance by China's purchases of agricultural products, while huge trade deficits remain the dominant theme in European Communist relations with Malaysia because of heavy dependence on Malaysian raw materials. (U)

During the year Kuala Lumpur made public its two-year-old decision against Soviet financing of the Tembeling Dam. While the press speculated that environmental factors prompted the decision, in fact the government was concerned about a large contingent of Soviets operating in a remote area. (U)

Papua New Guinea

China signed a three-year agreement with Papua New Guinea to buy 20,000 tons of copper concentrates a year valued at nearly $22 million, about double China's annual purchases in 1975-77. (C)

The Philippines

Philippine interest in increasing and diversifying its Communist trade was set back by a drop in sugar prices which cut Manila's trade surplus with the USSR by $100 million. The brightest spot in the trade picture was the Philippine-Chinese five-year agreement incorporating a Chinese oil sales contract. In return for 44 million barrels of Shengli crude (valued at about $500 million in 1978 prices), the PRC will receive sugar, copper concentrates, and agricultural and chemical products. (C)

The East Germans signed a protocol for 1979 in which they agreed to buy Philippine goods worth $20 million and sell chemicals, fertilizers, and consumer goods worth $26 million to the Philippines. East Germany also extended a $30 million credit to finance Philippine imports. Manila agreed to form a joint fishing company with Poland, which would lease Polish vessels under long-term contract. Further possibilities for cooperation in processing and support facilities were discussed. These follow on more than four years of Philippine-Soviet negotiations for a similar joint fisheries operation. (U)

No change occurred in Singapore's businesslike relations with the USSR and Eastern Europe in 1978. Singapore was considering a Polish request for use of repair and other facilities in Singapore's harbor as well as Warsaw's offer of a joint manufacturing venture. For the first time Soviet naval vessels were among the Soviet ships repaired under the $17 million in Soviet vessel repair contracts held by the government-owned Keppel shipyards. Since the mid-1960s, nonmilitary vessles had been repaired in Singapore in compliance with a law requiring part of Singapore's sales proceeds to be spent in Singapore. A $46 million Chinese contract for two oil rigs increased China's business with local shipyards. Beijing also sold Chinese Shengli crude for refining in Singapore to a Hong Kong firm which hopes to establish a new company for processing Chinese crude in Singapore refineries. (S NF)

Thailand

New trade and economic cooperation agreements between China and Thailand in 1978 and a pact to exchange military attaches may help reverse the decline in relations that set in after the initial flurry of trade deals following diplomatic recognition in 1975. As the result of a deal completed in December, Thailand will export grain and other agricultural products in return for 240,000 tons of diesel oil and 600,000 tons of crude, and Beijing will send technicians to study Thai industrial and agricultural techniques. Bangkok also signed trade agreements with Czechoslovakia, Hungary, and Romania following a decision of the new Thai Government to expand trade with the Communist world. (C)

Latin America

General

European Communist imports of Latin American agricultural goods and minerals have kept Communist trade with the region in deficit for over a decade. The problem worsened after the price inflation of 1973, when annual deficits began to exceed a billion dollars. Communist countries responded with intensive campaigns to sell machinery and equipment, accompanied by threats to shift their purchases to other markets unless major Latin American partners took meaningful steps to balance trade. They urged that purchases be made under outstanding credits and accepted credits for food and raw materials purchases from the more affluent nations, such as Argentina and Brazil. (U)

In 1978 East Germany provided the largest amount of export financing to Latin America. A $200 million equipment credit was extended to Brazil, in hopes that the aid would not join the $2 billion of unused earlier Communist funding to Latin America countries. Latin American countries prefer to buy equipment from Western producers and have largely ignored Communist equipment credits. (U)

Even though negotiations usually stretch out over several years, Moscow's sales prospects look best in the power equipment field. During 1978 the USSR was negotiating contracts for several billion dollars' worth of power projects in Argentina and Brazil, but its only new assistance to a Latin American country during the year was a $15 million gift of two turbines to the Salto Grande hydropower station being built jointly by Argentina and Uruguay. Moscow tried to balance its trade with Brazil with oil shipments and began to supply oil to Venezuelan customers in Western Europe for Venezuelan crude to Cuba under a quadrilateral deal. China, in its first oil shipment to the Western Hemisphere, used oil to balance its trade with Brazil. Beijing also offered oil to several smaller countries in the area. (S NF)

Cuba entered the market actively with aid offers to Barbados, Dominica, the Dominican Republic, Guyana, Jamaica, and Panama and planned further penetration of Caribbean markets through Cuban-controlled private firms. (C)

Argentina

The USSR renewed its sales drive in Argentina in 1978, in order to reduce the widening gap in its trade balance with Argentina, which mounted to almost half a billion dollars by yearend. Moscow—again concentrating on the power industry and hoping to take advantage of further deterioration in Argentine-US relations because of human rights issues—intensified efforts to win contracts for the Yacyreta hydroproject and for turbines at Parana Medio. Moscow already has contracted to design the Parana Medio project—a $2.5 billion multipurpose power and irrigation development—and in October won a contract for two 310-MW generators for a Buenos Aires thermal plant. A gift of two turbines to the Salto Grande installation was meant to sweeten the $80 million Soviet aid package already committed to the joint Argentine-Uruguayan undertaking. Meanwhile the USSR completed installation of turbines at the Lujan de Cuyo power plant under $120 million of contracts for three power plants. (S NF NC)

East European countries had no better luck than the Soviets in reducing their trade deficit with Argentina, and efforts to induce the Argentines to tap the almost $250 million of outstanding credits were not successful. Instead Buenos Aires provided Poland a $30 million credit to finance agricultural imports from Argentina. (S NF)

Brazil

Brazil accepted its largest single Communist aid commitment in 1978—a $200 million credit from East Germany—while Brasilia continued to fend off Soviet overtures to expand their relationship. The new assistance, provided in conjunction with a three-year East German–Brazilian trade agreement, is intended to help correct the serious imbalance in East German–Brazilian trade, a problem common to all of Brazil's Communist trading partners. As an interim measure, Brazil itself has begun to offer credits for East European purchases of Brazil's agricultural products. (S)

Figure 8: LATIN AMERICA
Communist Agreements with LDCs, 1978

Agreements, 1978 (million US $)

	Economic
LATIN AMERICA	262
Argentina	8
Brazil	200
Colombia	10
Guyana	8
Jamaica	30
Uruguay	8

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While Soviet sales promotion is not restricted, the military government objects to project activity that would increase the Soviet presence over the 25 in Brazil in 1978. The government was strongly opposed to a $500 million Soviet credit offer for the Porto Primavera power project because 250 Soviet technicians would become resident in Brazil to participate in implementing the project. Despite Moscow's offer to finance 40 percent of the $1.3 billion total cost, with eight- to 10-year credits, after two years' grace, at 4.5-percent interest, the Brazilians are seeking Western financing. Brazil turned down a similar Soviet bid on the Itaipu hydroelectric project, while Moscow came under fire for delays in installing the first turbine at the Sobradinho hydroproject under a 1975 credit. (S NF NC)

At the same time, Soviet crude oil sales—30,000 b/d at $13 a barrel—were welcome. Previously, similar offers had brought the trade deficit down from about $400 million in 1976 to less than $110 million in 1977. (S NF NC)

Facing the same kind of trade problems, Hungary offered to cooperate in building pharmaceutical and alumina plants and to provide Brazil with medical equipment to offset deficits which had reached $180 million in 1977. Budapest hopes that the $300 million, three-year trade agreement signed in 1978, calling for Brazilian manufactures and raw materials imports for Hungarian equipment, will bring trade into better balance. Poland also tried to correct its $100 million trade deficit with a three-year trade agreement which provides for $500 million in annual trade and includes a coal for iron ore barter deal. (U)

China, which has recorded a total deficit of almost $250 million in 1974-77, when the People's Republic began to buy from private Brazilian companies, signed its first formal intergovernmental agreement since the establishment of relations with Brazil. The agreement, which specifies hard currency settlements, was followed by contracts to exchange 1 million tons of Brazilian iron ore for 2.5 million tons of Chinese crude oil over a two-year period, beginning in 1979, with additional amounts expected over the subsequent three years. This is China's first petroleum sale in the Western Hemisphere. (U)

Peru

While frictions over the Soviet $655 million military supply program marred Soviet-Peruvian relations in 1978, Moscow's agreement to reschedule Lima's military debt was a positive force for continued cooperation, although at the moment further military orders seem unlikely. Lima has maintained ties with Warsaw Pact countries as a counterbalance to Western influence and as a symbol of nonalignment. (S)

For the first year since Peru's weapons purchases from the Soviets began in 1973, no new arms deals with the USSR were concluded in 1978. This was mainly because of pressure from the IMF and others that Lima restrict arms purchases as well as Peru's disenchantment with the amount and quality of Soviet support, training, and maintenance practices. Moscow nonetheless delivered almost all the outstanding equipment ordered by Peru, resulting in deliveries in 1978 of $77 million—20 percent of 1977 shipments. (S)

Aircraft deliveries accounted for two-thirds of Moscow's 1978 shipments and included two SU-22 trainers, 12 AN-26 transports, and three MI-6 helicopters. Ten BRDM-2 amphibious reconnaissance vehicles included in the deliveries were the first to enter the Peruvian Army's inventory. Reports that the Army also received T-62 medium tanks were not confirmed. (S NF)

Supported by about 150 Soviet military personnel, Peru moved ahead with deployment of the SA-3 surface-to-air missile system, which was added to SA-7 and SA-6 missile systems, ZSU-23-4 antiaircraft guns, SU-22s and MI-6s. These together with a number of French Mirage fighters are expected to give Peru superiority over potential adversaries on its borders. (S NF)

Moscow acquiesced in spring 1978 to most of Lima's requests to restructure payments on its military debt due in 1978-80. The USSR agreed to defer $98 million of principal and downpayments due in 1978-79 and $51 million of 1980 payments until 1985. Lima, however, will continue to pay interest of $8 million annually. (U)

Peru's economic relations with Communist countries have not recovered from the economic doldrums of 1976 when the regime imposed an austerity program at the urging of the international banking community. While Communist countries bought about 15 percent of Peru's exports, they did not pledge further assistance above the $285 million already committed, and a number of development projects proposed in the early 1970s were still not activated. (C)

Even though the USSR completed feasibility studies for the Olmos hydropower and irrigation project (a $1 billion project which would take 10 to 15 years to build), Moscow made no commitment to go ahead with the facility. (U)

Other Communist countries also had a quiet year on the economic aid front. Czechoslovakia agreed to allocate $10 million in credits under an existing agreement for a power plant at Iquitos, which had been under discussion for years, and Hungary continued to supply educational equipment under a $1.3 million contract. Romania, which buys about 450,000 tons of iron ore a year from Peru, proposed the expansion of this trade to include copper, silver, lead, zinc, and other minerals. In 1978, Bucharest consummated a deal for $6 million worth of railroad equipment and offered to sell a 100,000-ton soda ash plant as well as equipment for Peru's steel industry. Romanian studies for the $600 million Antamina copper mining project, completed in 1978, had not resulted in a contract at yearend. (U)

Other Latin American Countries

Bolivia. The world's largest tin volatization plant being completed by the Soviets at Potosi is the centerpiece of Bolivia's economic relations with Communist countries. Plans for Soviet aid to a second plant at Marchamarca are at an advanced stage. In addition, Moscow offered to increase its tin purchases, which now run at about $40 million a year, making the USSR Bolivia's third most important tin customer after the United States and the United Kingdom. Agreement is expected as well on a Soviet–West German venture to build a $150 million lead and silver smelter in Bolivia with Soviet technology. A $10 million equipment contract under a 1976 framework agreement for 10-year credits brought total transactions under that agreement to nearly $70 million. (U)

Poland completed installation of a $5 million glass plant built under credit, while Czechoslovakia offered a motorcycle assembly plant and a 10-million-ton steel and scrap metal processing plant. (U)

Caribbean. *Bahamas and Netherlands Antilles.* These island groups requested crude oil from China through a Swiss intermediary, with possible long-term arrangements contingent on experience with the initial shipments. (S NF)

Barbados. This island may allow Cuba to open a commercial office in Bridgetown, following a Cuban offer of project assistance for sugar production, dairy farming, and fisheries. China also offered project aid during a visit of a four-man mission to Barbados. (C)

Dominica. This country turned down Cuban offers of aid for a cement plant, a printing press, medical support, scholarships, and training of personnel in fisheries and agriculture. (S NF)

Dominican Republic. Cuba offered the Dominican Republic assistance in converting sugarcane byproducts to cattlefeed, a major item in the Dominican Republic's program to diversify the sugar industry. (U)

Haiti. Haiti received Chinese offers of economic assistance in return for full diplomatic relations. Only Poland, among Communist countries, now maintains a presence in Port au Prince. (S NF NC)

Jamaica. Site preparation was under way at Jamaica's only ongoing Communist project—the $8.5 million Chinese cotton-polyester textile plant at Old Harbour. Jamaica shelved plans for accepting $150 million of Hungarian credits offered two years ago for a 600,000-ton alumina plant becaue of the island's precarious financial position. It did agree, however, to accept $28 million in credits added to a 1977 trade credit, of which

about half was allocated for development projects; the remainder, for consumer goods, medical equipment, pharmaceuticals, and textiles. Terms range up to eight years for repayments, at interest of 7 to 8 percent. A Hungarian team arrived at midyear to study joint ventures, including a bicycle factory, an agricultural processing plant, fish farming, and vegetable growing. Cuba will provide $14 million of assistance to build six schools. About 600 Cubans will work on the project in addition to 40 doctors and other technical personnel Havana promised for the water supply projects and prefabricated panels plants that Jamaica is building. Late in 1978, Jamaica turned down a Soviet request to buy 200,000 tons of alumina because of the "ridiculously" low prices Moscow offered. (C)

Central America. *Costa Rica.* This country canceled the unused portion of a Soviet trolley bus credit and shelved Romanian plans to extract bauxite under a 1977 agreement. Romania and Costa Rica signed a protocol, however, for cooperation in the exploration of minerals and for commercial exchanges; Czechoslovakia offered power plant equipment, machine tools, textile plants, and building materials; although Cuba failed to sign a planned trade agreement early in 1978, it signed a memorandum on trade. (U)

Guatemala. A PRC purchase of 200,000 bales of cotton in 1978—about one-third of Guatemala's cotton exports—made China the nation's number one cotton buyer. China has bought a similar amount for 1979, and Guatemalan officials are expected to approve a Chinese request to establish a small commercial office in Guatemala. (U)

Honduras. In its first trade contract with Cuba in 17 years, Honduras bought 2,000 tons of cement from Cuba because the offer included the best prices and delivery terms. (U)

Nicaragua. China purchased 150,000 bales of cotton from Nicaragua, about one-third of the Nicaraguan crop. (C)

Panama. A Panamanian economic commission to Czechoslovakia, East Germany, Poland, and the USSR drafted commercial agreements and received offers of development assistance from all the countries visited. The Communist countries offered to buy $10 million of bananas a year; Czechoslovakia negotiated a technical cooperation agreement; and the USSR promised to cooperate in constructing the $800 million 300-MW hydropower plant in Bocas del Toro, first studied by Soviet technicians in 1977. East European countries also offered 100 scholarships to Panamanian students for the 1978/79 school year, and Poland signed a five-year cultural agreement for student exchanges and expressed interest in installing a shipyard at the new fishing port now under construction at Vacamonte. A Cuban delegation to Panama discussed expanded agricultural cooperation. (C)

Chile. The renegotiation by Chile of its Allende era debts with most Communist countries in 1977 led to a resurgence in trade with nearly all Communist countries in 1978. Thus, Chile signed its first sales contract with the USSR since the 1973 coup for a small amount of molybdenum. Czechoslovakia, Poland, and Romania contracted to buy small quantities of Chilean products, and Chile and the CEMA International Bank for Economic Cooperation agreed on repayment of $50 million of Chile's six-year-old bank loans for commodities, leaving only about $20 million of debt to the USSR and $5 million to Bulgaria still to be negotiated. Previously Chile's relations had been limited to the PRC and Romania. (C)

Also during the year, Santiago cultivated closer relations with China—the only country that had maintained its aid program after the coup—and was planning to ask the Chinese for military equipment. Late in 1978, China signed an agreement to buy 90,000 tons of copper over the next three years, totaling $46 million a year. Chile's Foreign Minister visited Beijing in 1978 to discuss the exchange of Chinese oil for Chilean copper, nitrates, and iron ore. (S NF NC)

Colombia. Involvement of Colombia with Communist countries showed little change in 1978, despite public statements by the new government that Communist relations would expand. Designs were completed for the largest Soviet-built power project in Latin America—the Urra hydroelectric project on the Alto Sinu River—to be constructed under the $200 million credit of 1975. (c)

Bogota apparently has dropped plans to associate with CEMA (on the advice of Romania), although it has tried to expand bilateral relations. Colombia announced plans to sign joint venture agreements with Bulgaria for vegetable processing plants and with Poland for a farm machinery plant, and to push sales of coffee in Eastern Europe in return for roadbuilding machinery and power equipment. Colombia's $150 million annual trade with Communist countries (usually in favor of Colombia) is governed by clearing accounts and settlement in hard currency. (c)

Cuba and China also are upgrading their relations with the new government. A $1 million mid-1978 contract calls for repair of Cuban ships at Cartagena, and new trade, cultural, and textile cooperation agreements are being studied. China and Colombia are expected to establish diplomatic relations by mid-1979. (U)

Ecuador. The military government of Ecuador continues to discourage ties with the USSR, at the same time that relations with Cuba and Eastern Europe are developing. The Soviet presence is limited to two Soviet technicians who arrived in 1978 to train Ecuadoreans in fisheries techniques. Meanwhile, Romania signed its first five-year trade and payments agreement with Ecuador and an economic and technical cooperation agreement to replace one signed in 1973. Poland delivered a $12 million cargo ship to the government shipping firm and hopes to sell fishing boats under a fisheries agreement that goes into effect in 1979. At the same time, Cuba and Ecuador signed an agreement to permit direct trade—to be settled quarterly in Canadian dollars—which will include the exchange of 20,000 tons of Cuban cement for coffee. (c)

Guyana. Even though Guyana has received only about $70 million of Communist economic aid, its political affinity with the Communist world shows no sign of decreasing. In 1978, East Germany (a) added $6.5 million in short-term commodity credits to earlier commitments of $30 million, (b) agreed to step up work on a vegetable oil plant, and (c) stood willing to send technicians and to survey bauxite projects. A protocol to the Soviet June 1977 agreement provided for Guyanese purchases of machinery and equipment on 10-year credit terms with 4.5-percent interest. In addition, Guyana will join the USSR in a joint fishing venture for shellfish and Moscow will formulate a 10-year plan for Guyana's fishing industry. While Soviet aid was not made available for Guyana's long-sought billion-dollar hydroelectric power project on the Upper Mazaruni River, a Soviet team began studies of a 600,000-ton alumina plant and associated power plant. Moscow apparently has consented to take a substantial portion of the plant's output if it goes ahead with the project. Chinese projects have been plagued with problems with local contractors which have slowed the $36 million aid program. Hungary discussed sales under its 1977 trade agreement which offers $10 million of one-year credits for consumer goods and five- to seven-year credits for capital goods—while Guyana tried to promote sales of rice, sugar, rum, and bauxite. Among the smaller Communist donors, Cuba promised to set up a medical facility at the University of Guyana and to provide technical assistance for the sugar industry and radiobroadcasting, while North Korea signed six protocols for assistance to agriculture and ceramic and plywood production, as well as a joint fishing venture and assistance for reestablishing Guyana's wooden shipbuilding industry. Guyana received small amounts of military aid from Cuba, North Korea, and East Germany. (S NF NC)

Mexico. Mexico viewed President Lopez Portillo's visit to Moscow in May 1978 during which the Soviets signed Protocol II to the Treaty of Tlatelolco (for a nuclear free zone in Latin America) as a major foreign policy coup. Mexican commercial orientation nonetheless remains with the West and even though the Soviets

pressed Mexico last year for orders of machinery and equipment (to be financed under the open-ended 1976 credit), no contracts were signed. Nor was a quadrilateral petroleum deal with Spain, Cuba, and the USSR concluded as Moscow made alternative arrangements with Venezuela. At yearend, however, Mexico was negotiating for (a) YAK-40 aircraft for commercial use in isolated areas and (b) Soviet oil drilling rigs. East Europeans made some progress in their relations:

- Bulgarian contracts were signed to plan, construct, and manage an agricultural complex in Mexico under a two-year pilot program.

- An agreement was reached with Czechoslovakia for building a thermal power plant at the port of Lobos.

- Hungary negotiated the establishment of joint Mexican-Hungarian enterprises to produce light machinery and industrial goods.

- Romania agreed to expand economic cooperation by increasing chemical and machinery exports to Mexico and by cooperating in the petroleum sector. (S NF NC)

Suriname. Despite a lack of enthusiasm in Suriname, China sponsored the first Communist trade fair in Paramaribo in the fall of 1978. No more was heard of a 1977 Soviet offer to assist Suriname in building a hydropower project. (S NF)

Uruguay. This country shared in the $15 million Soviet grant of two turbines to the joint Uruguayan-Argentine Salto Grande hydroelectric project. Operation of the first turbine is scheduled for May 1979; all 14 turbines should be operational by December 1981. These come under the $81 million credits provided by the USSR for the $1.3 billion project. The only other Communist overture in 1978 was a visit by the Hungarian Deputy Trade Minister to Montevideo late in the year, when he offered to increase Hungary's trade credits to Uruguay by $10 million. (S NF NC)

Venezuela. After two years of negotiations, Venezuela began oil deliveries to Cuba at midyear, under a quadrilateral oil agreement. The accord calls for shipment of 10,000 b/d of Venezuelan crude oil to Cuba in return for Soviet delivery of an equal amount of crude to Venezuelan customers in Spain. The one-year agreement calls for Spanish hard currency payments to Venezuela for the Soviet oil and Cuban settlement with the USSR for Venezuela's shipments. (C)

Europe

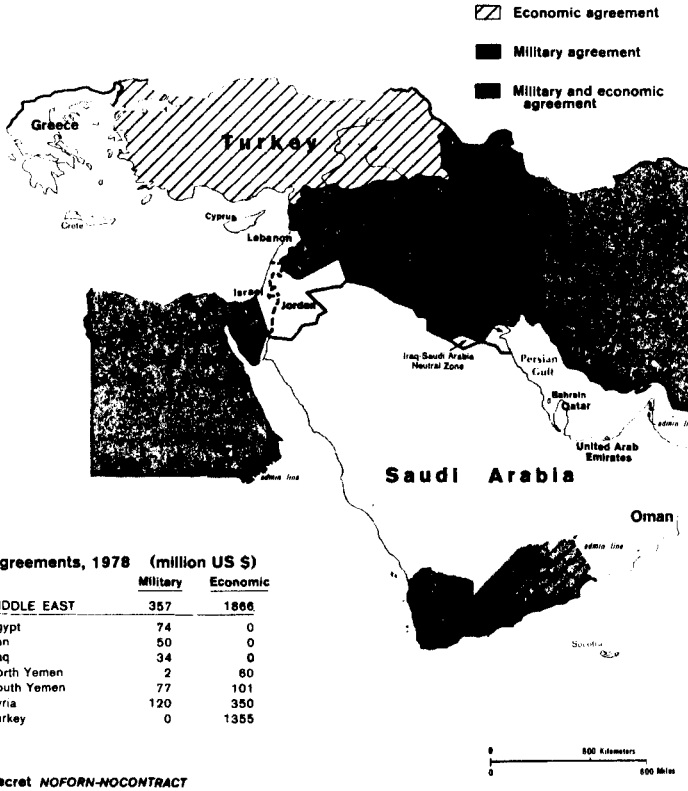
Malta

Malta expanded its ties with China and Eastern Europe during 1978, but relations with the USSR deteriorated because several Soviet naval vessels anchored in Maltese waters entered Grand Harbor without Maltese permission. Malta also is disappointed with Moscow's unwillingness to expand aid and commercial ties. Following Chinese Vice-Minister Keng Piao's visit, China began work on the Marsaxlokk harbor breakwater and shore facilities—one of China's largest projects under way in the Third World—being financed under a $45 million credit. Poland also is participating in the Marsaxlokk project under a $370,000 consultancy awarded by the United Nations. Joint ventures with Czechoslovakia got under way with the completion of plants to manufacture precision instruments and hydraulic equipment. The Czechs and Maltese also discussed a steel foundry and shoe factory. (U)

Portugal

Portugal agreed to permit Cuba to use ship repair facilities, to be paid for with sugar. (U)

Figure 9: MIDDLE EAST
Communist Agreements with LDCs, 1978



Agreements, 1978 (million US $)

	Military	Economic
MIDDLE EAST	357	1866
Egypt	74	0
Iran	50	0
Iraq	34	0
North Yemen	2	80
South Yemen	77	101
Syria	120	350
Turkey	0	1355

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Middle East

General

Despite Moscow's longstanding objective of maintaining a strong presence in the Middle East, the Soviets made few positive gestures in 1978 to enhance their relations with key nations in the area. Military aid commitments—the Soviets' most potent instrument for influence in the Third World—to Middle Eastern countries fell to a 13-year low of less than $100 million and only Turkey received large new pledges of economic aid. Almost all of the new military aid was concentrated in South Yemen as Moscow provided jet fighters, tanks, and missiles to support the new Marxist regime that took power in June 1978; the Soviets also expanded technical assistance by 150 personnel, and about 1,000 Cubans were sent from Ethiopia to help the new Aden regime consolidate its power. An additional 500 nonmilitary Cubans sent to South Yemen together with 400 doctors posted to Iraq were the first Cuban nonmilitary personnel sent directly to the Middle East. According to several reports, the USSR will build naval and airbases in South Yemen, largely to support its own needs. (S)

Arms deliveries to the area in 1978, which maintained the billion-dollar annual level of 1975-77, greatly reduced the delivery backlog in the absence of large new commitments. Shipments to both Iraq and Syria, Moscow's largest arms buyers, remained high; these countries drew on their large 1976-77 orders, which were not repeated in 1978. The failure to sign large new agreements stemmed from a combination of factors, including: (a) Iraq's and Syria's need to absorb the advanced equipment already on hand into their operational forces; (b) political-strategic reasons, including Soviet hesitation to commit substantial quantities of new arms until Moscow can assess the implications of the Iraq-Syrian rapprochement and its effect on Syrian military capabilities; and (c) recent West European (notably French) inroads into Iraqi and Syrian arms markets. Furthermore, the massive oil wealth of Middle East nations is threatening the Soviet position as an established arms supplier to the region, since buyers now are in a better position to buy from the West. (S)

The standoff in new arms transactions did not apply to economic programs. Iraq received large-scale deliveries of equipment under its billion-dollar power and oil development contracts with the USSR. The Iraqis also signed new contracts in 1978 for Communist participation in their development program, especially for civil construction and water resource development. In Syria the 10-year Soviet construction of the 800-MW Euphrates power plant and dam was completed in 1978, and while no new projects were undertaken, the East Germans extended Syria their largest credit ever ($350 million) for industrial plants. (S NF NC)

The fall of the Shah in December culminated a year of uncertainty for the Soviet-Iranian relationship. Moscow's economic technicians remained at Soviet-aided projects throughout the year, despite (a) a slowdown in activity as shipments piled up at the border and (b) the yearend closing of the pipeline that carries Iranian gas to the Soviet border. Plants planned under earlier agreements remained on the drawing boards and the initiation of the 1975 trilateral gas line deal was held in abeyance. No shipments under the more than $600 million in outstanding arms contracts with the USSR were observed. Communist buyers were caught up in the turmoil in world oil markets caused by the cutoff in Iranian exports, with Romania the hardest hit. Bucharest sought alternative suppliers for its Iranian imports, which comprised one-third of its oil imports. (S)

Pressures mounted in some moderate Arab states for normalizing relations with Communist countries. Thus, Abu Dhabi and Oman established diplomatic relations with China, and the Saudis conducted their first dialogue with Moscow. On the other hand, Kuwait refused to admit Soviet technicians to repair the Soviet equipment purchased under the $50 million contract (of 1977) for air defense equipment. (S)

Egypt

As Egypt's relations with the USSR and Eastern Europe sank to an alltime low in 1978, Cairo strengthened relations with China by accepting unprecedented amounts of military aid. Meanwhile, an upsurge in foreign exchange receipts from oil, worker's remittances, and Arab aid, as well as closer political cooperation with the United States, accelerated the

Westward reorientation of Egypt's economic relationships. (S)

Soviet arms continued to decline in importance in Egypt's military inventories. Only a few million dollars' worth of spares and vehicles were provided by the USSR last year. Meanwhile, Egypt, backed by Arab financing, closed deals with major Western suppliers for $4 billion of modern weaponry, $1 billion with the United States alone. These included orders for: (a) $525 million for F-5Es from the United States; (b) $100 million worth of jeeps, trucks, and trailers from US firms; (c) 20 C-130 transports from the United States; (d) 120 Alpha jet fighters from France; (e) Swingfire antitank missiles and Lynx helicopters from the United Kingdom; (f) six Ramadan-class missile attack boats from the United Kingdom, valued at $300 million; (g) $150 million of ground support equipment from West Germany; and (h) $50 million in electronic equipment from Italy. (S)

Arab states had agreed to finance nearly all of the costs of this hardware, but Egypt's signature of the peace treaty with Israel in March 1979 leaves their participation and the status of these contracts in doubt. While Cairo awaits deliveries of new equipment and during the phasing-in period, Cairo is trying to keep its Soviet-supplied military operational by tapping other Communist arsenals. China, which has provided spare parts from time to time, made its first F-6 aircraft (China's version of the Soviet MIG-19) available to Egypt. Six of the aircraft were delivered by yearend. The order for 50 to 100 planes was one of two accords signed with the PRC in 1978. The other included technical and financial assistance for a plant to manufacture spare parts in Egypt. While we have no information on repayment terms, China usually provides military aid as an outright grant. (S NF NC)

Romania also has been an important source of spares for Egypt. In 1978 Bucharest agreed in two separate deals to provide 5,000 AKM assault rifles. (S NF NC)

A reduced trade and aid program is all that remains of a once flourishing Soviet-Egyptian relationship that brought in $1.1 billion in economic aid for public sector industry as well as $4 billion of military equipment. The $6 billion of Arab funding (largely in cash) transferred to Egypt since the 1973 Middle East war has given Egypt flexibility in deciding its own economic destiny and has allowed it to turn increasingly toward the West. Despite rumors during the year that Sadat planned to expel Soviets from development projects (particularly in oil and rural electrification), at yearend 750 Soviet technicians still worked in Egypt, mostly at the Helwan steel mill and Nag Hammadi aluminum plant. In May, an Egyptian delegation negotiated a contract for expanding a refractories plant at Helwan. (S NF)

Among the East European countries Romania has maintained the best relations with Egypt by supporting Cairo's peace initiatives. Romanian technicians completed the installation of a thermal power plant at the Hamrawein phosphate complex, and early in the year Bucharest allocated one-third of the $90 million in credits outstanding from its 1971 agreement for electrification projects in Egypt. East Germany, which had extended $95 million in credits in 1977, saw its trade with Egypt drop 10 percent in 1978 to $80 million, while Egypt broke relations with Bulgaria at the end of the year over a minor matter. (U)

At yearend the Egyptian press announced that the ban on raw cotton exports to the USSR and Czechoslovakia would continue throughout 1979; other Soviet purchases were maintained at earlier levels. In 1978, Soviet-Egyptian trade dropped $215 million from 1977, propelled by a $135 million drop in Soviet imports. Meanwhile, Egypt continued to save $150 million in hard currency through its barter trade with the Soviets. Moscow, while it did not respond with a counterembargo of coal, timber, and other essential supplies, threatened to cut off coking coal and other strategic materials if Egypt attempts to balance trade according to Sadat's 1977 directive for a surplus of only $20 million to service economic debt. (C)

China, trying to benefit from Sadat's anti-Soviet policy, discussed aid to Egypt's textile and mining industries and agreed to build a conference center in Cairo. (U)

Iran

Despite reductions in aid and commercial deliveries to Iran late in 1978, Moscow continued work on Iranian development contracts and tried to maintain a vigorous technical presence. The Soviets apparently hope that the 15-year Soviet-Iranian relationship will become even more vital as Tehran reassesses its development priorities and its relationships with foreign contractors. (U)

Even though work schedules were disrupted by supply backups at the Iranian border, nearly 4,000 Soviet technicans remained at major Soviet projects which were under construction. These technicians were allowed to maintain the blast furnaces and coke ovens in operation at the showcase Isfahan plant, where even a temporary closing would seriously have damaged the steelmaking facility and required two or more years for startup. Work on other Soviet-sponsored projects that kept going includes: (a) a second border dam on the Aras River, which will add 48,600 hectares of irrigated land on each side of the river and 100 MW of electricity to each country's generating capacity; (b) a 1,200-MW thermal power plant at Ahwaz; and (c) the machine-tool plant at Arak, whose capacity is being increased, from 30,000 to 50,000 tons annually. (S)

Following several months of intermittent operation, the IGAT-I pipeline, which carries natural gas to the Soviet border, was shut down at yearend. Soviet exports rose slightly to $635 million, while imports fell because of the gasline closing. We have little information on the status of Soviet arms deliveries to Iran in 1978; the prospects for further sales in the immediate future appear dim. (C)

Upheavals in Iran have left the Soviet presence in Iran uncertain. Moscow apparently believes that Iran will continue to sell gas to the USSR and to honor existing agreements, especially the $3 billion 1975 accord for developing both sides of the Iranian-Soviet border. At the end of 1978, more than $1 billion of commercial contracts awaited implementation, and plans for additional projects were on the drawing board. These included (a) industrial plants at Isfarayan and Kerman valued at about a billion dollars, which were agreed to in 1976; (b) a $450 million power plant at Isfahan; (c) a $250 million section of the IGAT-II pipeline; (d) a rail link to the USSR, agreed to in 1976; (e) a $500 million aluminum plant, still under study; and (f) a tripling of capacity at the Isfahan steel mill. (C)

Preliminary information indicates that Iran has shelved plans for a pipeline that was to be constructed under a 1975 20-year trilateral accord with the USSR for gas sales to Western Europe. Under the agreement, Moscow was to construct a section of the 1,500-kilometer (IGAT-II) pipeline, designed to pick up 475 billion cubic feet of gas annually from fields in southern Iran for transport to Astara at the Soviet border. The USSR, in turn, was to deliver 390 billion cubic feet of its own gas to Austria, West Germany, and France, for which Iran would receive hard currency. Moscow would retain 85 billion cubic feet of gas as a fee. Another 130 billion cubic feet of Iranian gas was destined for Czechoslovakia each year. While work apparently has begun on sections of the pipeline being undertaken by third countries, we have no information on its present status or the degree of Soviet participation. (U)

The Soviet-Iranian relationship that has evolved because of the common border has been reinforced over time by mutual economic benefits. A 1966 Soviet agreement to build a natural gas pipeline from Iran's southwestern fields to Astara on the Soviet frontier propelled Soviet-Iranian exchanges to a billion-dollar-a-year relationship by 1978 and allowed Tehran to convert a formerly wasted product (flared gas) into more than $200 million of annual earnings. The 350-billion-cubic-foot annual flow of Iranian gas to the USSR since 1970 has been more than enough to service Tehran's $1.4 billion economic and military aid debt to the USSR. (U)

Cheap Iranian gas for the Transcaucasus has allowed the USSR to avoid building the long-distance pipelines that would have been required to service the area from Soviet fields. Iranian supplies also have freed equivalent amounts of Soviet gas for export to East European allies and to hard currency customers. (U)

The USSR and Iran have profited from their trade, which developed largely as a result of the Soviet aid program. Moscow's sales of equipment had soared after 1973 as the USSR shared in the Iranian buying spree; by 1977 Iran had become the largest Third World market for Soviet goods. In addition to Soviet sales of $575 million in that year, Moscow earned about $50 million for technical services on Iranian projects. While the Soviet share of total Iranian trade was less than 5 percent (including Iranian oil exports) heavy machinery imports from the USSR made an important contribution to Iranian development. (U)

As for the East European countries, the most serious impact of the turmoil in Iran was on Romania because of Bucharest's extensive commercial and technical relations with Iran and its reliance on Tehran for about one-third of its oil imports. By yearend, Romania was looking for other suppliers to furnish the 60,000 b/d of crude formerly bought from Iran. Earlier in 1978, Hungary and Poland had agreed to participate with the Soviets in building the $400 million thermal power plant at Isfahan, and Iran had agreed to expand oil trade with Eastern Europe. Tehran had signed (a) an agreement with Romania to raise trade to $1 billion annually by 1980 and (b) a $215 million protocol with Hungary under which oil was to have made up 35 percent of Hungary's imports from Iran. (C)

Iraq

Baghdad's harassment of Iraqi Communists, the rapid rapprochement between Iraq and Syria, Baghdad's suspicion of Soviet and Cuban intentions on the Arab peninsula, and Iraq's strong support of Eritrean rebels in Ethiopia, all contributed to growing strains between the USSR and Iraq during 1978. Nonetheless, the USSR continued as Iraq's main source of weapons, support equipment, and technical assistance in 1978. (C)

The two countries apparently did not sign large new contracts in 1978, although rumors suggested that a high-level Iraqi military delegation negotiated an arms deal with Moscow in November. (S NF NC)

Baghdad has been buying more and more of its modern weapons, especially aircraft, in the West. In 1977-78, these orders (largely in France) reached about $2 billion, twice Baghdad's total arms orders in the West during the previous 20 years. The Western equipment is not only complementing Soviet hardware; it is opening opportunities for other arms producers to make inroads into this almost exclusive Soviet–East European preserve. Communist countries had negotiated nearly $5 billion in arms orders in Iraq in the past two decades, more than half in 1974-78. Soviet arms deliveries amounted to a near-record $610 million in 1978. Iraq, a preferred customer because of its hard currency payments, continued to receive late-model equipment before other Soviet clients. Its aircraft receipts accounted for about 60 percent of 1978 Soviet deliveries and included some of the USSR's latest models. Six IL-76 long-range jet transports (the first Soviet exports of the aircraft)—ordered under an October 1977 contract—arrived in the second half of 1978. Iraq also became the second non-Warsaw Pact country, after Algeria, to get the MI-24 combat assault helicopter. The 10 MI-24s, along with 60 additional MI-8s delivered in 1978, add to what already was the largest helicopter fleet in the Arab world. In addition, Baghdad took delivery of 30 Sukhoi jet fighters (probably the advanced SU-20/22 jet fighter/bombers) and 8 MIG-21 fighters. (S NF NC)

Iraq also joined Libya and Syria as the only LDCs to have the SA-9 surface-to-air missile system, a more effective weapon against high performance aircraft than the SA-7. Large quantities of tanks, armored personnel carriers, guns, and artillery pieces flowed into Iraq to support planned ground force expansion of armored and artillery forces. (S)

Arms transactions with Eastern Europe in 1978 included (a) a $25 million contract with Bulgaria for unspecified equipment; (b) about $8 million in orders in East Germany, mainly for trucks; and (c) small quantities of quartermaster items from Czechoslovakia. East European deliveries brought Iraq its third Polish Polnocny-class LSM landing craft and 150 57-mm S-60 antiaircraft guns as well as large quantities of small arms from Hungary, which all together were worth about $50 million. (S NF)

Soviet military advisers in Iraq increased slightly, to about 1,100, to help introduce sophisticated aircraft and air defense equipment. About 550 Soviet personnel worked with the Iraqi Army, about 500 with the Air Force, and about 50 with the Navy. In addition, about 150 Cuban and 100 East European military personnel were employed as advisers and technicians. Some 100 Iraqi military personnel went to the USSR for training and 150 went to Eastern Europe—about the same number as in 1977. (S)

While Iraq's $11 billion of annual oil revenues allow Baghdad choices in exploiting foreign expertise, the Iraqis continue to rely on CEMA countries for certain kinds of development work—especially civil construction and for power and water resource development. In addition to geopolitical considerations the Communists eagerly pursue the relationship for oil and hard currency earnings. Almost all of Iraq's oil shipments to the USSR, either as barter or repayment for past debts, are resold for hard currency. (U)

In 1978, Moscow concluded a $140 million contract for a water injection program at the North Rumaylah oilfield that is designed to overcome pressurization problems that have kept the field from reaching capacity production and agreed to build an oil desalting and dehydration plant under credits provided in 1976. Moscow's contribution to Iraq's national petroleum industry, the second most important object of Soviet aid to Iraq, was enhanced by the onset of production at the Soviet-developed Luhais field in southern Iraq (at the rate of 50,000 b/d). All of the field's output, developed under a $22 million Soviet contract, is slated for export. The Communist interest in long-term petroleum supplies became even more important toward yearend 1978, when Iran stopped oil exports. (U)

During 1978, Soviet organizations bid actively on several lucrative commercial contracts including: (a) a 600-MW hydropower complex on the Great Zab River; (b) a $350 million thermal power plant at Bajil; and (c) a power transmission project. Moscow already had contracted to provide nearly $2 billion of assistance to Iraqi power and irrigation projects under aid and commercial arrangements, half of which were signed in 1976 alone. (S NF)

Nearly 6,500 Soviets and East Europeans worked on Iraqi development projects in 1978, and for the first time Iraq employed a large number of Cubans—400 doctors sent under a protocol signed at midyear. More Cubans are likely to pour into Iraq under road and housing development contracts awarded Havana in 1978, and Baghdad has requested 300 more medical personnel from Cuba. (S)

North Yemen

Relations between North Yemen and the USSR deteriorated in 1978 because of Soviet support to South Yemen, which was promoting terrorism and subversion in North Yemen. At the same time extensive military modernization programs, financed by Saudi Arabia and supplied by the United States and France, helped orient North Yemeni procurement toward the West. (C)

Nonetheless, Moscow's traditional role as military adviser (down to the unit level) gave it a strong position from which to maintain a presence. In 1978 Moscow delivered tanks, transport aircraft, MIG-17s, and Zhuk patrol boats. Poland supplied 50 T-54 tanks—the final delivery of 50 ordered by the late President Ghashmi. (S NF)

On the economic side, the USSR agreed to extend $38 million of new credits to triple the 100,000-ton capacity of the Soviet-built cement plant at Bajil. The new accord brought Soviet aid allocations to more than $140 million. (U)

Late in 1978, China signed an agreement to build a $20 million conference hall in Sana, probably under new credits. According to one report, however, China is being phased out of the Chinese-built Sana textile plant, Yemen's largest industrial plant, because of production problems. (C)

South Yemen

South Yemen's increasingly radical policies and its willingness to allow Soviet use of air and naval facilities in South Yemen have made it an appealing target for Soviet arms diplomacy. The Soviet Union remained Aden's principal source of military supplies in 1978. The USSR had reportedly agreed to build

naval and air bases in Yemen, probably to support its own operations. A new $75 million arms agreement will provide Aden two squadrons of MIG-21s, T-62 tanks, and surface-to-surface missiles. Prominent among the $135 million of Soviet arms deliveries in 1978 were Aden's first minesweeper, its first SU-20/22 fighter-bombers, and its first ZSU-23/4 antiaircraft guns. The new equipment is partly a reward for South Yemen's help to Ethiopia in the Ogaden and Moscow's assessment of South Yemen's potential for serving Soviet interests in the Horn of Africa and Arabian peninsula. (S NF)

Moscow also relied on other Communists to support its activities in South Yemen. Bulgaria and Hungary signed small arms and ammunition accords with the People's Democratic Republic of Yemen, and about 1,000 Cubans and East Germans supplemented the 500-man Soviet presence. These cadre helped to consolidate power for the new government while providing political and intelligence training. (S)

Reports of Communists saving the South Yemen economy from collapse following Arab sanctions may be exaggerated. Despite Aden's repeated call to Communist governments for aid to replace lost Arab assistance, only Hungary and East Germany among the East European countries extended aid—Hungary $5.9 million of credits for agriculture and East Germany loans for consumer goods and fisheries development. Only an $85 million commitment for Aden's second five-year plan and $5 million of food and other commodities were forthcoming from the Soviet Union in 1978 even though Moscow had announced in 1976 that it would quadruple its aid to South Yemen in 1976-80. Some of the announced assistance could come through a possible Soviet funding of Aden's trade deficit created by an increase in Soviet exports to South Yemen in 1976-77 without a comparable rise in imports. In 1978 the PDRY deficit was nearly $40 million, following deficits of $25 million and $45 million in 1976 and 1977. Moscow also has agreed to consider stretching out repayments on Aden's existing debt obligations (now repayable in 12 years at 2.5-percent interest) and a moratorium on interest payments. (S)

China, struggling to maintain a foothold in Aden, agreed in 1978 to provide $5 million in cash and to extend road construction activities beyond those now planned between Shihr and Sayhut. The PRC began construction of five cold storage plants at Mukalla under its fisheries aid to South Yemen. Chinese personnel remain exceedingly popular with the South Yemenis because they work hard and ignore internal politics. (S NF)

Syria

Syria is not willing to break off its close arms supply relationship with the USSR despite the deterioration of Soviet-Syrian political ties in 1978 and new potential sources for financing military supplies from non-Communist sources. Nevertheless, Damascus protested Soviet-Cuban activities in Ethiopia by supplying the Eritrean revolutionaries with weapons of Soviet origin. (S NF)

Political factors played a minor role in the USSR's unwillingness to sign large new military contracts with Syria in 1978. Moscow's arms policy in Syria reflects Soviet appraisal of the needs and absorptive capacity of Damascus's armed forces. Recent Soviet studies in Syria recommended the postponement of new agreements until large recent shipments are better integrated into Syria's military stocks, and in 1978, Syria's arms requests resulted in only about $9 million of support and service contracts with the USSR. Soviet deliveries totaled $310 million, only slightly below those in the two preceding years. About $275 million worth of equipment remained to be delivered under Damascus's $4.6 billion of military contracts with the USSR, which may include some T-72 tanks and MIG-25 jet fighters. (S NF)

While aircraft shipments in 1978 (valued at close to $100 million) showed sharp declines, they included about two squadrons of the latest model MIG-21 bis. At least 14 new surface-to-air missile battalions (SA-2, SA-3, and SA-6) were put in place, four more than in 1977, and Syria received its first two Osa-II guided-missile patrol boats. Deliveries of land armaments were also down from 1977 levels, with the receipts of only six T-62 tanks, 54 BMP infantry combat vehicles, 33 APCs, and 14 ZSU-23-4 antiaircraft guns. We also note an increased Syrian desire to diversify procurement sources. (S NF NC)

East European arms contracts in 1978 jumped to a record $111 million, nearly half from East Germany, whose $50 million credit is its largest ever to an LDC. Czechoslovakia followed with $43 million in contracts for 35 L-39 and 40 U-MIG-15 jet trainer aircraft and radio equipment. The East German deal covers specialized electronic equipment, MIG-21 aircraft repair components, and assistance to Syrian internal security forces. Hungary agreed to provide about $10 million worth of communications equipment. The East Europeans delivered $40 million in military hardware mostly Czechoslovak. The Czechs provided 160 T-55 refurbished tanks, 10 FROG-2 rocket launchers mounted on Tatra trucks, and four L-29 and two U-MIG-15 trainer aircraft. (S NF NC)

Moscow increased its military advisory services by adding 200 technicians to the 2,200 present in 1977 and presumably upgraded the overall caliber of its personnel in response to Syrian complaints about the quality of Soviet training. Some 180 East Europeans were also in Syria:

- 60 East Germans worked mostly in aircraft maintenance and a few with internal security.
- 60 Czechs were employed in T-55 tank overhauls and communications training.
- 50 Hungarian engineering and technical instructors worked at the Military Technical Academy in Aleppo.
- 10 Bulgarians serviced helicopters.

In addition North Korea had a 30-man contingent assisting in the production of ammunition. (S NF NC)

Syria sent 500 Air Force personnel to Czechoslovakia in 1978 for L-39 flight instruction and maintenance training. Only about 100 Syrian personnel went to the Soviet Union in 1978 for training, as Damascus pursued its policy of the last few years of cutting back this training from the record 700 in 1973. (S NF NC)

The most important event in the Soviet-Syrian economic aid relationship in 1978 was the completion of the 10-year construction job on the 800-MW Euphrates power plant and dam—an occasion so significant that the Chairman of the Soviet State Committee for Foreign Economic Relations traveled to Syria to attend the celebrations. The half-billion dollar project, for which the USSR provided $185 million in credits, doubled Syria's electrical output, and is expected eventually to increase the stock of arable Syrian land by 700,000 hectares. (S NF NC)

While the USSR provided no new assistance to Syria in 1978, it signed a protocol for cooperation in the oil industry and completed a 100-kilometer section of the Damascus-Homs railroad, scheduled for full operation in 1978. The large projects Syria requested under a $300 million 1976 agreement (a nuclear power plant, a steel mill, and large-scale irrigation) have not gone forward. (U)

East Germany made the largest economic aid commitment to Syria in 1978, a $350 million credit for equipment, East Germany's largest pledge to a Third World country. The new aid may be used for financing two cement plants ($130 million), a $30 million power station, a textile plant, and an electric light bulb plant. (C)

Romania's nearly $400 million program, extended over the past decade, still makes it Syria's most active donor. Trial operation began at yearend on Romania's largest project in the Third World, the 120,000 b/d $400 million Banias oil refinery, which is expected to create a surplus for export after fully covering Syria's domestic needs for gas, fuel oil, and other products. Almost half of Romanian aid has gone to this project; another quarter went to build a triple superphosphate project at Homs which is scheduled for completion in 1979. Romania bid on a steel mill in 1978 and was awarded a $50 million commercial contract to develop Syria's gas industry project. (S)

Communist countries continue to benefit from Syria's efforts to expand its public sector industrial base, which represents 85 percent of total investment in the country. East Europeans, especially, are making a strong showing by putting together competitive bids, often combined with generous repayment conditions. Through these development contracts Communist countries have captured a large share of the Syrian market for machinery and equipment. In 1977 they supplied 20 percent of Syria's total imports and are believed to have maintained the same ratio in 1978. (U)

Turkey

Prime Minister Ecevit's midyear visit to Moscow and his signing of a "political document" sought by the USSR for several years set the stage for a new phase in Turkey's relationship with Communist countries. These countries rallied with large offers of economic assistance to Turkey as Ankara's financial crisis deepened, and the USSR pledged $1.2 billion of new development aid under the 10-year 1975 framework agreement. The USSR will provide assistance for expanding the Iskenderun steel mill and the aluminum plant at Seydesehir, as well as for several sorely needed power plants. Altogether, projects that would require $4 billion in Soviet credits were under discussion by yearend, as shown below. (C)

While the USSR apparently is ready to extend credits for the Orhaneli plant with 10-year repayment at 4.5-percent interest, Turkish officials hope the Soviets will allocate at least another $450 million for some of the other projects on the list in 1981-85. (S NF)

Despite Turkish pressure on the USSR to finalize an oil-for-wheat barter to relieve power shortages by yearend 1978, no deal had been consummated. The deal would have meant Soviet annual sales to Turkey of up to 60,000 b/d of crude beginning in 1979 (about 20 percent of Turkey's requirements) in return for wheat and tungsten. Imbalances were to have been settled in hard currency. The oil agreement would ha doubled the $400 million annual trade level set in a three-year agreement signed in September. As a further measure for alleviating Turkey's energy cris Bulgaria and the USSR are selling Turkey 1,200 million kWh of electric power annually, the Soviet power flowing through a recently completed power li to the Turkish border. (U)

East European countries provided Turkey with unpre edented commodity support in 1978:

- Bulgaria pledged $35 million of industrial raw materials and offered to construct an irrigation dam o the Tunca River.
- East Germany promised $50 million of long-term assistance for imports of German products.
- Romania agreed to ship $240 million worth of g to Turkey over the next three years, payable in one to seven years at 7-percent interest. (U)

Bucharest also agreed to (a) speed up construction of an oil refinery in Anatolia, (b) begin work on an associated 400-kilometer pipeline, (c) build a phosphate plant, and (d) provide assistance for the explora tion and production of minerals and oil. The refinery

	Annual Capacity	Estimated Credit Requirements (Million US $)
Thermal power plant, Orhaneli	200 MW	154
Thermal power plant, Can	600 MW	430
Expansion of aluminum plant, Seydisehir		93
Expansion steel plant, Iskenderun	6 million tons	2,000
Lignite mining	1.5 million tons	333
Kavsak-Cataran dam and power plant	590 MW	400
Foundry	30,000 tons	40
Refactories plant	90,000 tons	33
Nuclear power plant	890 MW	NA
Electrical equipment industry		87
Prefabricated housing		13
Heavy industrial equipment plant Manufacturing		133

This tabulation is Secret Noforn.

and petroleum exploration equipment are being financed by $200 million in credits pledged in 1976, but financing for the other projects was not spelled out. (U)

Other Middle Eastern Countries

Cyprus. Cyprus signed a protocol to import machinery and equipment from Czechoslovakia, its first transaction under a $5 million 1976 credit agreement. (U)

Greece. Both China and the USSR have moved to expand relations with Greece. Moscow agreed to study the possibility of (a) financing an alumina plant in Greece whose output would go to the USSR; (b) using Greek shipyards for repair and construction of Soviet vessels, (c) providing technical assistance for a nuclear power plant, and (d) selling electricity and natural gas to Greece. The USSR was awarded a contract for a 300-MW oil-fired power plant, despite Athens' reported dissatisfaction with a 200-MW Soviet unit installed earlier. Greece and Poland agreed to form a joint venture for processing Greek bauxite and another for setting up a spinning mill at Salonika. A shipment of Greek tobacco inaugurated the China trade under agreements signed early in 1978 in Beijing under which the PRC offered to barter oil for Greek products. (C)

Jordan. Jordan increased its economic ties with Communist countries in the past year. A Czech-Jordanian long-term trade and economic cooperation agreement, signed in June, may lead to Prague's participation in building power plants, a cement works, and ceramics and leather factories in Jordan. Poland signed a medical cooperation agreement with Jordan late in September, calling for technical assistance to Jordan and medical training for Jordanian personnel. Romania retained the largest interest in Jordan under a $170 million contract to expand the Zarqa refinery, which has been delayed by problems with contractors. China signed its first trade agreement with Jordan, and Amman offered the USSR concessions to develop phosphates in a new area in return for phosphate rock. (S NF NC)

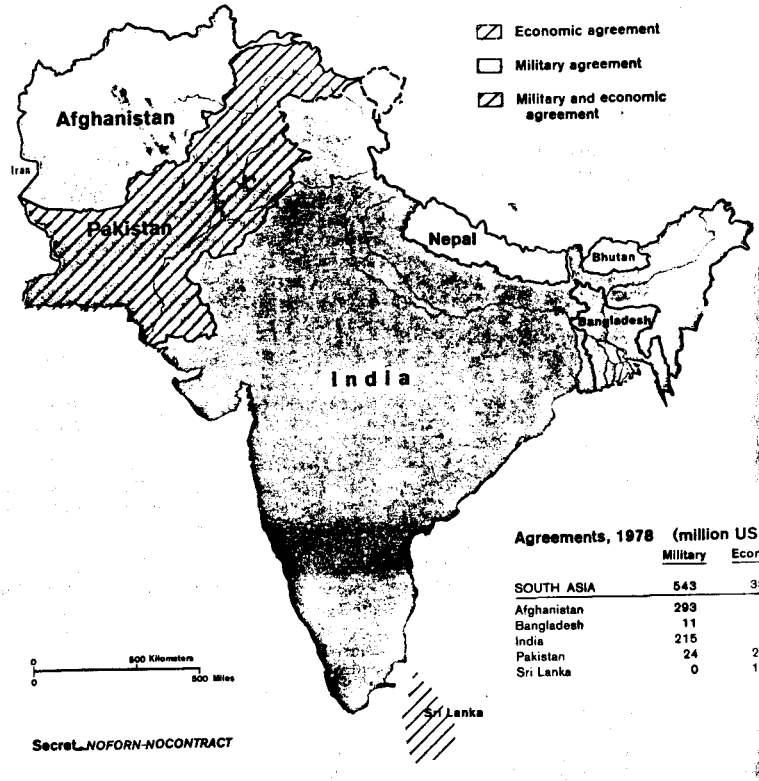
Kuwait. Communist countries continued their low-key efforts to break into Kuwaiti markets, while the USSR completed deliveries under Kuwait's only major arms pact with the Communists—a $51 million agreement with the USSR for air defense equipment. Under this accord Kuwait received Frog-7 rockets, Frog launchers, and SA-7 missiles in 1978. A Kuwaiti military delegation went to Moscow in November to discuss training and maintenance problems on the rockets, but made it clear to Moscow that additional Soviet military advisers would not be permitted in Kuwait. China has proposed the dispatch of 4,500 workers to work on a 4,000-unit low-income housing project and stadium which Beijing is building in Kuwait on commercial contract. This first Chinese commercial development effort in the Third World is being performed at cost. Romania has probably given up its hopes for Kuwaiti participation in the Navodari petrochemical project on the Black Sea and is seeking Libyan funds. Under the original agreement Kuwait was to have provided 49 percent of the financing for the project and was to have sold Romania 160,000 b/d of crude oil. East Germany fared better as Kuwait's International Investment Company arranged and managed East Germany's first all-Arab syndicated loan for imports of grain and animal fodder from the West, at market interest rates. The Kuwaiti institution handled nearly $50 million of similar loans for Poland last year. (S)

Oman. Oman and China announced diplomatic relations at ambassadorial level in May 1978. (U)

Saudi Arabia. During 1978, China, Romania, and the USSR expressed interest in establishing diplomatic ties with Saudi Arabia. (U)

United Arab Emirates. Among the UAE, no change occurred in Abu Dhabi's anti-Communist policies, although East Germany received permission to open its first trade office, similar to a Romanian one opened in Dubai. East Germany also agreed to provide doctors to staff Abu Dhabi hospitals. Sharjah hosted the UAE's first East European trade exhibit, from Czechoslovakia, in early 1978. The Czechs also hope to open a permanent trade mission in the commercially oriented northern Emirates. (C)

Figure 10: SOUTH ASIA
Communist Agreements with LDCs, 1978



Agreements, 1978 (million US $)

	Military	Economic
SOUTH ASIA	543	388
Afghanistan	293	0
Bangladesh	11	0
India	215	0
Pakistan	24	250
Sri Lanka	0	138

South Asia

General

The Marxist coup in Afghanistan in April provided Moscow a unique opportunity to secure its influence in this major border country, the USSR's oldest aid client. By yearend, Afghanistan had signed a long-term friendship agreement with Moscow, and nearly 1,000 Soviet economic and military technicians occupied positions in every major military and economic unit where they directed the inexperienced personnel installed by the revolutionary government. Moscow signed a military agreement to provide the new regime with $275 million worth of modern aircraft and hastened the signing of aid contracts negotiated by the previous government. Despite rumors of new Soviet aid which would reach billions of dollars, Communist countries did not pledge new economic aid to Afghanistan to replace lost Arab funding. (S NF NC)

Other South Asian countries signed new agreements with the USSR in 1978 even though there was widespread concern over the destabilizing effect of the Afghani revolution and Moscow's role in the coup. Fearing that India's growing reconciliation with China would damage its long-range interests on the Asian continent, the USSR was particularly lenient in negotiations with India and signed a ruble/rupee agreement and a $215 million military agreement. (S NF)

Pakistan received additional credits of $225 million for the Karachi steel mill, to cover cost overruns, and Islamabad signed its largest military contract with the USSR—$19 million for helicopters. The USSR also provided $58 million for the Mahaweli irrigation project in Sri Lanka. (S NF)

Moscow's heightened activity comes at a time when China's program is in a holding pattern. China faces the erosion of its influence in Pakistan—its largest economic and military aid client—because of Pakistan's turn to the West for sophisticated arms, to match those recently acquired by India. Most South Asian countries still view China as a valuable ally against Indian and Soviet expansionism in the area. In 1978, China's new military assistance totaled only $16 million, and economic aid—for Pakistan and Sri Lanka—reached $85 million. (S NF)

Afghanistan

The number of Soviet military and economic advisers in Afghanistan has doubled since the April 1978 coup which brought the leftist government of Prime Minister Nur Mohammad Taraki to power. Nearly 3,000 Soviet advisers are now engaged in: (a) training Afghani troops on modern weapons, (b) economic and military planning and administration, (c) engineering and managerial support for the construction and operation of several dozen development projects, and (d) refurbishment of the educational system along Marxist lines. Soviet aid deliveries have not increased as rapidly as the advisers, because of the inability to absorb a higher level of aid. (S NF NC)

Shortly after taking power, the Taraki regime signed Afghanistan's largest military agreement with the USSR, for $275 million of modern aircraft. The lenient terms include discounts of up to 75 percent, 15-25 years to repay the principal, and interest rates of (typically) 2 percent. The aircraft included (a) SU-20/22 fighters, (b) MIG-21 bis jet fighters, and (c) MI-24s, previously received only by Algeria and Iraq in the Third World. The USSR also agreed to improve the MIG-21 workshop at Bagram Air Base, which supplies equipment to repair MIG-21 frames and wings. (S NF NC)

Shipments of Soviet military hardware arranged under earlier accords have continued to pour into the country for use against rebellious elements as well as for the general defense of Afghan's borders. Among the $46 million worth of hardware delivered in 1978 were: seventy T-62 tanks, field artillery, and MIG-21 trainers. The flow of equipment taxed Afghani technical capabilities and deepened Kabul's dependence on the USSR for complete military support. The wholesale promotion of junior officers by the People's Democratic Party into senior positions weakened the military control structure and sharpened the need for additional Soviet assistance in training Afghanis in the maintenance and operation of the modern weapons in inventory. The number of Soviet military technicians tripled to at least 1,000 early in 1979. Nearly 100 pilot trainees left for the USSR in January under a training program that already has graduated 3,700 military

personnel from the various military services. Thousands of others have been trained in Afghanistan by Soviet instructors. (S NF NC)

Moscow's dominant role in the Afghani military establishment dates back to 1956 when the Soviets extended $100 million of military assistance to Kabul. Subsequently, the USSR and Czechoslovakia became Afghanistan's only arms suppliers. The USSR has delivered $700 million of weapons to Afghanistan, which account for about 95 percent of the country's inventory, including: (a) 930 medium tanks (of which, 115 are T-62s) (b) 645 armored personnel carriers; (c) three SA-2 and six SA-3 battalions and a small number of SA-7s; (d) 640 air defense weapons; (e) more than 3,000 artillery pieces and rocket launchers; and (e) 390 aircraft (of which, 44 are MIG-21s and 25 are SU-7s). (S NF NC)

Even with the large-scale arms deliveries and the increased number of Soviet advisers, Afghanistan's military capabilities remain limited and may even have declined since the 1978 coup. The Army would be hard put to defend the country against a serious foreign attack because of poor leadership and troop training, inadequate transportation, and shortages of spare parts. The Air Force similarly is plagued by poor leadership, primitive communications, inadequately trained operational and maintenance personnel, and a shortage of airfields. (S NF NC)

In contrast to the vigorous military aid program, which Kabul considers vital to its survival, Moscow has disappointed Afghani expectations of large amounts of new financial support to the economy. The major Soviet economic contribution has been technical services and training. With the arrival of additional Soviet planners in 1978 to take over managerial jobs in Afghanistan's economic ministries and to survey and plan new undertakings, the number of Soviet economic personnel nearly doubled to 2,000. As part of its effort to refurbish the educational system—and to promote the political reliability of its neighbor—the Soviets have introduced a new Marxist curriculum and Russian language classes into Afghanistan's educational system; along with East European countries the USSR gave at least 2,000 scholarships to Afghani students in 1978 for study abroad. (S NF NC)

Since the coup, the USSR has not added new commitments to the $1.3 billion program extended over the past 24 years. Of this commitment, $500 million of project aid remains to be delivered. These are hampered by Afghanistan's limited absorptive capacity and by rebel activity in areas where projects are under way. While no new commitments were forthcoming last year, the Taraki government signed 60-odd contracts that had been negotiated by the previous regime. The contracts are valued at $200 million; at least three-fourths will be financed with existing Soviet credits, and the remainder are probably commercial. Among the contracts signed were agreements for:

- A $50 million rail and vehicle bridge over the Amu Darya River at Hairatan, the first direct connection between Afghanistan and the USSR.
- $30 million worth of petroleum equipment to be provided in 1979 and 1980.
- Studies and designs for the $600 million Ainak copper smelter and for a 300,000-ton fertilizer plant near the existing Soviet-built plant at Mazar-i-Sharif.
- A $22 million seven-year project for mapping northern Afghanistan.
- A $5 million renovation of the Sher Khan river port, to increase its handling capacity to 2,500 tons of cargo annually. (C)

In November, Afghanistan announced new Soviet oil discoveries in northern Afghanistan, paving the way for Soviet construction of a 500,000-ton oil refinery, which had been planned for several years. The Soviet-developed petroleum industry eventually will provide most of Afghanistan's own needs for oil and leave a small surplus for export. Since the mid-1960s, the Soviets have allocated more than $235 million to oil and gas development. The USSR now receives 3 billion cubic meters of Afghani gas annually (through a Soviet-built pipeline) which services most of Afghanistan's economic and military aid debts to the USSR. Moscow agreed to pay a third more for Afghani gas in 1978 and to make retroactive payments for two or three years at that rate. (C)

The Soviet aid program has provided about one-half of Kabul's import requirements for projects included in its four five-year plans (1956-75). Two-thirds of Afghanistan's roads and two-thirds of its electric power capacity have been built with Soviet assistance. The USSR has constructed major airfields, developed an extensive power transmission network, and put 40,000 hectares of land into cultivation. (C)

Moscow's position as the largest aid donor to Afghanistan has made it the principal trading partner as well. In 1978, imports from the USSR (mostly machinery and equipment, oil, and food) rose by nearly 25 percent, to $205 million, while exports to the USSR (largely natural gas and agricultural products) remained stable at $110 million. Because of inflation the import increase was probably nearer 20 percent in real terms while the volume of exports declined. (U)

Despite rumors of hundreds of millions of dollars of impending credits, East European countries provided no new assistance to Afghanistan in 1978. They signed only a few small contracts under $40 million of old agreements. Chinese aid has proceeded routinely. Beijing is considering additional equipment and pharmaceuticals for the hospital it is building in Kandahar and has decided to add a cigarette factory to the list of projects it will construct under its $45 million 1972 credit. The Chinese already are constructing a textile complex and irrigation projects under the credit. (U)

Bangladesh

Bangladesh moved closer to China for military assistance in 1978 to counteract Soviet power in the region. While Beijing did not respond to Dacca's request for tanks, armored personnel carriers, artillery, and four Shanghai-class patrol boats, it did agree to provide $11 million worth of F-6 aircraft. The shift to China as a military supplier was precipitated by Moscow's refusal in 1976 to supply spares for the $45 million of military equipment the USSR had provided the Bangladesh military by that time. Although Soviet shipments were resumed in 1977, we have no indication of further deliveries in 1978. (S NF NC)

The USSR was still active in the economic field in 1978 and provided $4 million of tools and dies for the newly completed electrical equipment plant, financed under a 1972 credit. Moscow also sank new wells at two gasfields and bid on a contract for expanding the Soviet-built power plant at Ghorosal to 230 MW. Nonetheless, Dacca still complained about the cost of Soviet aid. A $6.2 million hard currency purchase of US wheat in 1978 to repay a 1973 Soviet wheat loan further irritated the Bangladeshi. (C)

China in 1978 retooled production facilities at the Tongi ordnance plant, with new machines, electrical components, and spare parts, and helped to keep operations going by supplying industrial raw materials and the services of 125 technicians. The $60 million Chinese aid program, now going ahead under a 1977 agreement, shows typical Chinese prudence in selecting projects. China will construct a nitrogen fertilizer plant and a flood control project, for which site selection already has been made. China has further agreed to study requests for a sugar refinery, a rice bran oil mill, and coal development. (U)

India

India's historical dependence on the USSR for air and ground forces weapons was diluted in 1978 by a record $2 billion deal with the United Kingdom for 170 to 200 Jaguar fighter aircraft. India had rejected Moscow's offer of MIG-23 fighters and SU-20 fighter-bombers because of range limitations and New Delhi's desire to diversify its arms supplier base. India also bought some 20 British Sea Harrier aircraft and is looking for new submarines in the West. While New Delhi has supplemented its Soviet equipment purchases with small amounts of Western equipment since the 1960s and has manufactured the British Vijayanta tank under license, the recent purchases and negotiations in the West have moved into a major procurement category for the first time—an indication of India's attempt to increase its supplier base. (S)

Even though India will pursue equipment in Western arms markets more actively than before, it plans to rely on the USSR for its core of equipment requirements over the next several years. Sales levels of Soviet equipment will be affected, however, by increases in licensed domestic production of MIG aircraft and

other equipment. A high rate of arms flows from the USSR ($226 million) was observed again in 1978. New Delhi, still trying to preserve its $3 billion arms connection with the USSR, discussed licensing rights for assembling and producing additional Soviet weapons to improve its self-sufficiency. (S)

New Delhi still relies on Moscow for designs, critical components, and spare parts for these weapons produced under license. Soviet-made engines, for example, will power at least the first several hundred MIG-21 bis aircraft to roll off Indian assembly lines beginning in 1980 or 1981. More than half the fighter aircraft in the Indian Air Force inventory are either imported from the USSR or produced domestically under Soviet license. (S)

Moscow shipped two Natya-class minesweepers and a Nanuchka-class missile patrol boat under a 1975 agreement. The patrol boat is equipped with a new version of the SS-N-2 surface-to-surface missile. New Delhi also received 120 Soviet T-55 tanks. (S NF NC)

Revision of the ruble/rupee exchange rate in November ended a dispute that had plagued Soviet-Indian relations for several years. While both sides made concessions to reach final agreement, concern over the warming of Indian-Chinese relations led Moscow to soften its position. The new rate of 10 rupees per ruble compares with the old rate of 8.3 and the initial Soviet demand of 12 rupees per ruble. It was agreed not to apply the new rate to repayments already made, although it will be applied to outstanding debt on credits already drawn, spread out over 45 years without interest. This will add about 20 percent to India's unpaid Soviet debt. The Indians had fought hard to exclude existing debt from the agreement inasmuch as even without the rate increase, according to India, repayments will run at $250 million annually over the next four years. Moscow's unprecedented 45-year deferment, however, virtually eliminates the effect of the increase on annual repayments. (S NF NC)

Reduced strains in the economic relationship were noted in Soviet agreement to buy equipment from Soviet-built plants in India for Soviet aid projects in Algeria, Iran, and Nigeria. New Delhi considered association with CEMA as well in order to take advantage of subcontracting opportunities on East European projects. (S NF)

The economic aid relationship of more than 20 years was revitalized in March, with the upgraded Soviet-Indian joint economic commission which set targets for economic and technical cooperation over the next 10 to 15 years. The immediate focus was on development in the steel and machine building industries, petroleum production and processing, transport, and communications. This will include:

- A $500-550 million 600,000-ton alumina plant, under the 1977 $340 million credit, to be paid off in alumina. (The USSR already has agreed to take at least 300,000 tons a year.)
- A 3-million-ton blast furnace complex at Vishnakapatnam.
- An increase to 10.5 million tons in the combined steel capacity at the Soviet-built Bhilai and Bokaro steel mills.
- A $100 million Soviet-Cuban nickel-processing plant in Orissa Province, for which feasibility studies already are under way and which will use local Indian ores similar to those found in Cuba.
- Oil and gas prospecting and development in West Bengal.
- Exploitation of low-grade iron ore and manganese deposits. (C)

Soviet projects were given new life in 1978, after almost a decade of foot dragging. Stronger Soviet pressure for cooperation and agreements to develop further the heavy industrial sector were accompanied by completion of the aluminum smelter at Korba and the first stage at the Bokaro steel plant. The Korba smelter had produced 60,000 tons of aluminum by yearend. The Soviets also continued deliveries to the $250 million Mathura refinery, which is under construction, and the USSR began negotiations with New Delhi to help expand the annual Indian fish catch to 8 million tons, from the present 2.25 million tons. (U)

India's relations with Eastern Europe were marked by new agreements that will involve ambitious plans for economic development:

- Bulgaria signed a protocol to help with major agricultural complexes at Bihar and Karnataka for growing and processing fruits, vegetables, grains, and meat. Bulgaria also agreed to form a joint fishing company with India and discussed other possibilities for cooperation such as in leather goods, electronics, chemistry, and pharmaceutical plant.

- Hungary studied joint ventures in other LDCs for which the Indian company Hindustan Machine Tools Co., will provide some of the equipment. Other ambitious projects under discussion include an alumina plant at Gujarat, a titanium plant in Kerala, and tungsten mining facilities in Rajasthan. Hungary agreed to set up additional leather and shoe factories, pharmaceutical plants, and fruit processing plants in the south of India and is considering an Indian proposal to build a coke oven in Hungary, similar to one it provided Bulgaria.

- Romania has offered a 330-MW power plant and a 1,500-tons-per-day cement plant as part of a comprehensive economic program. The program also would include assistance to India for oil and gas development, vehicle assembly, chemical and leather goods production, and development of the electronics industry. (U)

Despite protracted efforts to identify and exploit new trade opportunities, Eastern Europe's trade with India dropped by $65 million in 1978 to about $450 million. (U)

Pakistan

Despite Pakistan's anxieties over Moscow's increased role in Afghanistan and fears about shifts in regional power balances, Pakistan accepted $225 million in new Soviet credits to cover costs in building the Karachi steel mill. China remained Pakistan's favorite donor, in spite of a declining aid program. (U)

Pakistan has gradually shifted its reliance on China as a major arms supplier. The PRC, which for a decade since the Indo-Pak war was Islamabad's principal source of arms, has been displaced by Western suppliers, who are able to provide the modern arms Pakistan needs to offset Indian acquisitions. In 1978, Pakistan signed only a $5 million military agreement with Beijing, in contrast with $525 million in commitments in the years since the 1965 war and an arms inventory of which three-fourths came from China. The PRC also had built arms repair and manufacturing facilities at the Taxila mechanical complex, (China's only industrial plant in the Third World) and in 1978 delivered 16 F-6 jets, valued at $25 million. (S NF NC)

Despite Pakistan's concerns over the Soviet threat, Islamabad signed a $19 million contract with the USSR for 12 MI-8 helicopters, low prices, and favorable credit terms clinching the deal. (S NF NC)

Contrary to advice from the international financial community, Pakistan accepted $225 million in additional Soviet credits to complete the Karachi steel mill—for which the USSR had already provided $430 million—including a reallocation of an earlier unused $45 million credit. The USSR will take 270,000 tons of iron and steel annually as repayment for the new credits. Recognizing the payments strains, Moscow allowed Pakistan to defer payments for individual facilities at the mill until one year after they go into production, instead of a year after deliveries were made. Western aid donors have criticized the diversion of scarce resources to the steel plant, while Islamabad requests budgetary support and debt rescheduling. (U)

Among East European countries, Hungary offered $100 million of 12-year, 5-percent credits for a subway and trolley system while Poland offered to supply 16 ships beginning in 1980. Romania opened the $60 million Karachi oil refinery built with $16 million of Romanian credits. Bucharest agreed to proceed with a cement plant, for which financing was announced last year, and to study construction of a heavy electrical equipment complex. China began construction of an airport at Skardu and completed the largest Chinese project in Pakistan—the $200 million Karakoram highway, a connecting link between China and Pakistan which China built without cost to the Pakistanis.

The Chinese immediately shifted their roadbuilding crews to another highway project which will link Skardu, in Pakistan, with Yarkand—probably also being built as a grant. (S NF NC)

Other

Nepal. Nepal attaches great importance to its ties with China—a $185 million grant aid donor. In 1978, China agreed to study construction of a sugar mill and pulp paper plant that could cost up to $40 million. China also completed the Hitaura textile mill under a 1972 agreement and speeded construction of the 60-km Gurka-Narayanghat road. Nepal also will receive its long-awaited rosin and turpentine plant from the USSR under a $4.3 million contract signed in mid-1978. Even though the Nepalese were disappointed with the terms, they are easy by Soviet standards—12-year repayment after three years' grace at 2.5-percent interest. (U)

Sri Lanka. Sri Lanka received $120 million in new aid from China and the USSR for water resource development and a $20 million grant from East Germany for 25 rice mills and 500 railway cars. The Chinese and Soviet offers for assistance to Colombo's billion dollar Mahaweli River development scheme in eastern Ceylon—the center piece of Colombo's agricultural development scheme in which several Western governments also are expected to participate—includes China's $60 million offer for roads, housing, schools, and public buildings. The Soviet commitment—also in the $60 million range—is for two irrigation projects, which apparently are in addition to the Samanalawewa project being implemented under a $57 million 1975 credit. In addition the USSR will provide five ships to the Ceylon Shipping Corporation under a $45 million contract. (U)

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Communist Aid and Trade Activities in Less Developed Countries, Third Quarter 1978

A Research Paper

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CONTENTS

Highlights 1

Article 3

China's Aid Programs Reflect Economic Realities 3
Discusses recent trends in China's aid program in the Third World

Third Quarter Developments 6

Communist Economic Activities in LDCs 6
Communist Military Transactions With LDCs 16

Communist Aid and Trade Activities In Less Developed Countries Third Quarter 1978

Central Intelligence Agency
National Foreign Assessment Center

December 1978

HIGHLIGHTS

Czechoslovakia signed an agreement to provide $50 million in credits to Morocco for purchases of power plants and light industrial equipment.

Benin signed its first economic agreements with Bulgaria and Poland in September, and opened negotiations with Czechoslovakia and Romania.

The USSR offered Cape Verde 16-year credits for petroleum product purchases.

A new Soviet-Ethiopian economic and technical agreement formalizes Soviet activity already under way but does not provide new credits.

China reportedly agreed to construct a 385-kilometer (km) highway in Somalia between Borama and the Djibouti border at an estimated cost of $20 million.

The USSR has agreed to supply two additional turbines free of charge to the Argentine-Uruguayan Salto Grande hydropower project in order to improve relations with Argentina.

Brazil signed three-year trade agreements valued at an aggregate of $2 billion with East Germany, Hungary, and Poland and was studying a $500 million Soviet credit offer for the Porto Primavera power project.

The USSR has provided about $225 million in additional assistance for the Karachi steel mill, being constructed with $430 million of earlier Soviet credits.

Both China and the USSR plan to assist Sri Lanka's $1 billion Mahaweli irrigation project.

The USSR has offered to conduct studies for an alumina plant and a nuclear power plant in Greece.

Iran signed a $410 million contract with the USSR, Hungary, and Poland for a thermal power plant.

Algeria has signed a contract with the Soviet Union for up to two squadrons of MIG-25 aircraft, possibly in exchange for Soviet port rights in Algeria.

Afghanistan signed a $250 million contract with the USSR for aircraft and ground support equipment.

Communist Aid and Trade Activities In Less Developed Countries Third Quarter 1978

ARTICLE

China's Aid Programs Reflect Economic Realities

Peking's emphasis on solving domestic problems has contributed to a decline in Chinese economic aid pledges to the Third World in the past two years. New economic aid commitments fell below $200 million in 1977 compared with average annual commitments of $500 million during 1970-75. Running about $50 million at half year, aid commitments promise to maintain their lower level in 1978, as the Hua government struggles with immediate domestic problems of (a) increasing capacity in coal, steel, and other basic industrial branches; (b) offering incentives to expand output; and (c) improving living conditions. In the meantime, disbursements made on previous pledges continue at a high level, as Peking honors previous commitments. The People's Republic of China, which always has been at a distinct disadvantage as a supplier of up-to-date military equipment, emphasizes economic aid in its program of assistance in the Third World.

Note: The substance of this publication has been coordinated with the Bureau of Intelligence and Research of the Department of State, with the Defense Intelligence Agency, and with the Agency for International Development. Comments and queries regarding this publication are welcome. They may be directed to Carol Fogarty of the Office of Economic Research, 351-5291.

Economic Aid

China's drive for international recognition in the 1970s was accompanied by record aid offerings. Economic programs were stripped of their ideological content and were employed as a major foreign policy instrument in the campaign to attain leadership among developing countries. In the five-year period 1970-74 economic aid pledges totaled $2.8 billion, nearly triple the $1.0 billion provided between 1956 and 1969 (see table 1). Sixty percent of the new assistance went to African nations.

By 1974, Peking's economic aid pledges began tapering off because of the internal power strug-

Table 1

China: Economic Aid Extended to Less Developed Countries

Million US $

	Total	1970	1971	1972	1973	1974	1975	1976	1977	1978 [2]
Total [1]	3,498	781	563	607	574	282	348	137	158	47
Africa	2,188	473	359	245	357	242	257	106	106	42
North Africa	253	...	61	41	2	57	35	...	57	...
Sub-Saharan Africa	1,935	437	298	205	355	185	222	106	49	42
East Asia	107	...	81	...	...	25	1	...	...	...
Europe	45	...	...	45	...	...	...	...	...	...
Latin America	152	...	44	89	...	8	10	1	...	...
Middle East	247	43	45	88	37	2	...	27	...	5
South Asia	757	265	34	139	180	5	80	3	51	...

[1] Data for the period 1 January–30 June.
[2] Because of rounding, components may not add to totals shown.

gle between the radicals and the moderates. The moderate faction, which ultimately rose to power under Hua Kuo-feng, assured the Third World that it would honor Chairman Mao's policy of helping poorer countries but noted that future aid programs would be limited by the PRC's own status as a poor and developing country. Moreover, Chinese officials hinted that any resources left over from domestic development would go to countries willing to publicly endorse Chinese policies, particularly those contrary to Soviet interests. For example, China was quick to promise development support to Egypt in 1976 and to Somalia and Sudan in 1977 when they renounced their ties with Moscow.

Most economic aid offerings in 1976-77 focused on Africa; of the total, only two agreements exceeded $50 million in value. The size of recent agreements has been more in keeping with China's limited economic capability than were the ambitious commitments earlier in the decade. Recent agreements continue the traditional Chinese emphasis on labor-intensive, light industrial and agricultural projects, with a large technical assistance component at a level well suited for less developed countries. Even though Peking earned high marks for the Tan-Zam Railroad project, it has recently turned down several African requests to provide assistance to railroad construction and other major infrastructure projects; the present administration evidently wants to steer clear of big new projects that do not take advantage of the PRC's long suits in foreign aid.

While the pace of commitments has slowed, disbursements have continued strong, as Peking carries out earlier agreements. One-fifth of China's $2.3 billion in total aid deliveries to LDCs were made in 1976 and 1977 (see table 2). Whereas deliveries in 1971-74 were dominated by the needs of the Tan-Zam Railroad project, recent deliveries have been more widely distributed. Major project starts in 1976-77 included a $55 million deepwater port project in Mauritania, studies for a $90 million canal project in Tunisia, a road in Madagascar, expansion of a heavy machinery complex in Pakistan, and a $30 million irrigation project in Sri Lanka. Road construction projects costing $400 million neared completion in Ethiopia, Pakistan, Rwanda, Somalia, Sudan, and the Yemens.

More than 24,000 Chinese technicians were employed in Third World countries last year, the highest number since the beginning of the program. The departure of 10,000 technicians from the Tan-Zam Railroad construction site was offset by an influx to other African projects. Sub-Saharan Africa accounts for about 85 percent of Chinese aid personnel abroad.

China's low-cost technical services program has been the most widely praised aspect of the PRC development effort. Peking does not charge LDCs hard currency for its technical services; LDCs pay only a small local subsistence allowance for housing, food, and transportation costs within the country; and the Chinese personnel work hard and live frugally. In some cases,

Table 2

China: Economic Aid Delivered to Less Developed Countries

Million US $

	Total	1970	1971	1972	1973	1974	1975	1976	1977
Total	1,672	72	189	259	238	252	181	283	198
Africa	1,030	37	116	148	164	137	118	195	115
North Africa	43	5	10	3	4	5	5	5	6
Sub-Saharan Africa	987	32	106	145	160	132	113	190	109
East Asia	40	...	...	8	8	12	8	3	1
Europe	10	...	...	4	...	2	1	1	2
Latin America	25	...	2	14	1	1	1	3	3
Middle East	157	6	10	9	39	30	17	23	23
South Asia	410	29	61	76	26	70	36	58	54

especially where medical services are involved, China defrays all local costs.

China's reputation among poorer nations as an aid donor is unmatched. The provision of well-balanced aid packages which effectively promote both economic and social development has enabled China to escape criticism often leveled against other Communist and Western programs for ignoring basic human needs. Even when small in size, Chinese aid packages have allowed for improvement of welfare and productivity while attacking basic deficiencies in infrastructure and agriculture.

Chinese skills and technology have been particularly pertinent to the poorest LDCs. Countries with annual per capita incomes of less than $200 have received more than one-half of China's aid pledges since the beginning of the program.

Chinese economic aid always has been directed toward the development of infrastructure, primary industries, and agriculture. The most prominent contributions are still to railway, road, bridge, and port constuction (35 percent). Aid to agriculture, irrigation, and multipurpose projects accounts for 20 percent, and aid to light industry for another 20 percent. Only 5 percent has gone to heavy industry, all in Pakistan. The balance has been channeled to urban development, to geological surveys, and to tourist, sports, educational, cultural, and medical facilities.

Chinese road and other transport projects open new areas to development and ease bottlenecks in the transport of goods and personnel. In North Yemen, for example, China has built one-half of the road network, and in Somalia and Sudan, about 10 percent. The Tan-Zam Railroad, now operating at partial capacity, has speeded up delivery of goods to the interior and to Zambia, easing congestion at the port of Dar es Salaam. Industrial and agricultural projects are adapted to the needs of each LDC. Profiting from its own post–World War II experiences, China has emphasized low-cost, easily operated projects that will save on imports. Projects often provide simple processing facilities for raw materials. Such light industrial facilities as textile, plywood, p per, food processing, and agricultural impl ments plants are constructed at low cost and ar put into production rapidly. They draw on read ily available local resources of manpower an materials. Usually minimal skills are required fo their operation and maintenance.

Chinese aid to the Third World ranks amon the most concessional offered by any donor China has provided nearly one-half a billio dollars in outright grant aid during the 1970s, f an overall total exceeding $800 million since the start of the progam. In recent years, Peking h further softened the terms of its credits.

The typical Chinese development agreement o the 1960s was interest-free and allowed repay ment over 10 years after 10 years grace. No amortization periods often are longer than befor after grace periods that range up to 20 or 3 years. These compare with average Weste repayment periods of 33 years, including nin years' grace, at 2.6-percent interest, and wit other Communist aid which only rarely provid more than 12 years for repayment after a or year grace period and which requires interest 2.5 to 3.0 percent.

Military Aid

The relatively small size of the Chinese mi tary aid program (only $845 million in tot commitments) stems from Peking's inability t compete with other Communist and Western suppliers in arming Third World military estab lishments. Though spread among 38 countries 26 in Africa—more than 75 percent of the assistance has gone to Pakistan and Tanzani Total military aid commitments in 1977 were meager $50 million (see table 3), about half t sub-Saharan Africa, and are running at the sam rate in 1978. China's military production la Western and Soviet technology by 20 years, an China has neither the quantity nor quality o arms now demanded by LDCs.

Even in countries were China has had long established arms supply relationships the tie have begun to crumble under pressures of co

Table 3

China: Military Agreements Concluded With Less Developed Countries

Million US $

	Total	1970	1971	1972	1973	1974	1975	1976	1977	1978 [1]
Total [2]	593	63	81	79	27	86	42	143	51	21
Africa	187	23	15	12	7	19	34	32	29	16
North Africa	21	...	...	...	...	...	9	...	...	12
Sub-Saharan Africa	166	23	15	12	7	19	25	32	29	4
East Asia	Negl	...	...	...	Negl	...	...	...	...	...
Latin America	...	...	...	...	...	...	...	...	...	...
Middle East	17	...	Negl	...	...	...	6	11	...	...
South Asia	388	40	66	67	20	67	2	100	21	5

[1] Data for the period 1 January–30 June.
[2] Because of rounding, components may not add to totals shown.

peting arms sales by major suppliers. For example, Tanzania, Peking's second largest arms client and the only Third World country to develop a deep dependence on China for equipment and training, is phasing out Chinese equipment. Tanzania has deliberately shifted to Moscow as its major supplier in order to get late-model weaponry that the PRC has been unable to supply. Similarly in Mozambique, the new government has brushed aside a decade of Chinese military collaboration in providing small arms and military training for guerrilla groups in favor of a Soviet relationship that could bring more modern weapons.

In recent years, Peking has provided only token military support for Egypt, Sudan, and Somalia. In all cases, China has stressed its preference for economic aid as an instrument for peace and stability. Peking, making a virtue of necessity, denigrates big power arms salesmanship as a sorry contrast to its own contribution to peaceful economic development.

THIRD QUARTER DEVELOPMENTS

Communist Economic Activities in LDCs

North Africa

General. Cuba is sending 350 doctors to North Africa—300 to Libya and 50 to Algeria—under technical assistance agreements announced in July. Last year only 15 Cuban technicians were in the Maghreb. (U)

Algeria. Poland intends to build a 500,000-metric ton cement plant and a sulfuric acid unit at Annaba, according to the Algerian press. The plants probably will be financed under $90 million of outstanding Polish credits. (U)

Libya. Libya and the People's Republic of China agreed to establish diplomatic relations in August and signed their first economic and technical cooperation agreement. (U)

A protocol, signed during the fourth session of the Soviet-Libyan intergovernmental commission, calls for the USSR to prepare plans for a 300-megawatt nuclear power plant in Libya. It was also announced that 100 Soviet technicians would arrive in Libya soon to begin oil exploration in unspecified areas. (U)

The new agreements were signed against a backdrop of Soviet complaints about slow Libyan payments on both economic and military accounts. According to one Soviet official, the USSR took 22,000 barrels per day of Libyan oil in 1977, presumably as repayments, and expected to buy 40,000 barrels per day in 1978. The Libyan oil is processed in Caribbean refineries, possibly for Cuba. This is our first indication in several years that the Soviets have bought Libyan crude. (C)

Morocco. Czechoslovakia reportedly has signed an agreement to provide $50 million in credits to Morocco for equipment purchases, apparently absorbing $25 million in untapped

trade credits provided in 1976 for similar purchases. Rabat also received $50 million in credits from Romania earlier this year for equipment. (U)

Western experts are forecasting hard days ahead for the $2 billion Soviet-Moroccan project to develop the Meskala phosphates. Western observers feel that at least 20 percent of the total equipment for the scheme must be purchased in hard currency markets and that Moscow will not likely break precedent to provide convertible currency loans. (C)

Tunisia. Bulgaria and Tunisia signed a new five-year trade agreement to exchange $100 million worth of goods, compared with $20 million called for in their previous five-year accord. (U)

Sub-Saharan Africa

General. Soviet and Polish officials held a seminar with representatives of Senegal, Gambia, Mauritania, and Sierra Leone to discuss the most suitable means for exploiting fisheries resources off the West African coast. All of these African nations, except Senegal, have fishing agreements with the USSR. (U)

East Germany shipped relief goods to Benin, Guinea-Bissau, Madagascar, and Mozambique and announced plans for similar deliveries to Chad, Congo, Ethiopia, and Mali. According to East German officials, relief shipments to Africa during the first six months of 1978 reached $11.5 million. (U)

The USSR sent relief aid to Angola, Sudan, and Kenya during the second quarter. (U)

Angola. Under a September protocol, Bulgaria will provide assistance for reviving Angola's tourist industry and for urban modernization. (U)

Cuba has promised training slots in Cuba for 2,500 Angolan technicians in 1978, compared with 500 in 1977. Cuba will also accept 1,200 elementary students for training at a facility set up last year on the Isle of Pines to train Third World students. (U)

According to the Cuban Ambassador to Sofia, as Cuban nonmilitary personnel (currently estimated at 4,000) leave Angola, they will be replaced by Bulgarians. About 500 Bulgarians are already in Angola under an October [illegible] agreement. (C)

Poland signed an agreement in Luanda in September providing for the delivery of heavy roadbuilding machinery and the training of Angolan workers, probably on commercial terms. (U)

Angola ratified a five-year economic and technical agreement with Romania calling for Romanian assistance for agriculture, geology, industry, mining, and oil. Bucharest already had signed a series of commercial contracts to provide vehicles, railroad equipment, and technicians. (U)

The Soviet deputy minister for land reclamation arrived in Luanda in July to study immediate Soviet assistance to water resources development. Activity probably would be financed under a May 1976 agreement which provides an estimated $10 million in credits for development projects. (U)

Benin. Benin's sudden expansion of economic relations with Eastern Europe continued with the signature of its first economic and technical agreements with Bulgaria and Poland in September. Cotonou concluded its first East European agreement, with East Germany, in June. Discussions in Romania reportedly resulted in promises to cooperate in agriculture, light industry, mining, and petroleum development. Talks also have been held with Czechoslovakia. (U)

The USSR signed agreements to provide medical assistance and to equip an experimental farm in Benin, probably to be financed under a $5.3 million aid agreement signed in 1974. (U)

Botswana. The PRC may soon send doctors to Botswana in accordance with discussions held in Botswana's Foreign Affairs Minister in Peking in September. (U)

According to Botswana's Education Minister, the USSR has offered to send teachers to Botswana, instead of underwriting study in other African universities as requested by the government. (U)

Cape Verde. In September, the USSR agreed to provide Cape Verde 16-year credits for petroleum products imports, which will meet all of Cape Verde's petroleum requirements. Last year, Praia's petroleum imports were valued at $2.3 million. Moscow also offered to construct a 350-kilowatt electric power plant in Mindelo which Cape Verde reluctantly turned down because of a lack of skilled personnel to maintain the plant. The USSR does not usually provide commodities, particularly oil, under credit, but Moscow hopes to obtain fishing and port rights from Cape Verde. (C)

Central African Empire. Chinese technicians arrived in September to study the centralization of Bangui's radiobroadcasting system and the establishment of a sugar plantation and refinery. These projects probably will be implemented under a credit agreement signed in 1976. (S NOFORN-NOCONTRACT)

Chad. China and Chad have reached agreement on commodities to finance local costs for a stadium and bridge. Construction on the stadium is scheduled to begin in January and on the bridge in June. Peking also gave Chad $360,000 worth of medical supplies and is studying new project proposals, including a rice-processing plant, a 100- to 150-bed hospital, and water wells. (U)

Ethiopia. Cuba signed an economic-technical cooperation agreement in September covering agriculture, animal husbandry, industry, public health, student exchanges, trade, and training. (U)

A new Soviet-Ethiopian economic and technical agreement, signed during the visit of a Soviet delegation in September, formalizes Soviet activity already under way in Ethiopia and calls for the establishment of a joint economic commission to plan future projects. Despite rumors that the USSR would provide up to $2 billion for 60 economic projects, Moscow did not commit new credits under the agreement. An estimated $75 million of Soviet aid remains to be drawn under 1959 credits and Soviet technicians have been studying agricultural and irrigation projects with a total cost of $300 million. (S NOFORN-NOCONTRACT)

Much to Addis Ababa's disappointment, Moscow turned down Ethiopia's request for a steel mill and other heavy industrial projects, and recommended that Ethiopia first focus on agricultural development. (S NOFORN-NOCONTRACT)

Meanwhile, a hospital extension, built under a 1975 Soviet $1.7 million grant was completed in August and is being staffed by 30 Soviet doctors. The USSR also has awarded 700 Soviet academic scholarships to Ethiopians for 1978. (U)

Gabon. According to the Paris press, China plans to discuss assistance for the Trans-Gabon railroad during President Bongo's trip to Peking in December. Peking has turned down other recent African requests for aid for railroad construction. (U)

China promised to provide assistance for an $11.4 million rice project in Myen-Ogooue province. About $5 million of the cost would be financed by the Chinese under a 1975 $25 million credit. Some Gabonese officials have expressed doubt about the profitability of the project. (U)

Ghana. Ghana and Bulgaria signed an agreement on Bulgarian participation in Ghanaian agriculture, irrigation, geological studies, and light industry. Bulgaria is expected to provide credits for the projects. (U)

Under its first such contract with a West African country, Hungary is to supply port cranes valued at $1.6 million to Ghana. (U)

Chinese technicians arrived in August to conduct feasibility studies for plants to produce sheet glass, probably under an unused $22 million 1964 credit. (U)

Guinea. Guinea and Vietnam signed a five-year economic, technical, and commercial agreement in Conakry in September. The commercial agreement calls for a joint economic commission to expand trade, and for hard currency settlement of trade imbalances. (S NOFORN-NOCONTRACT)

In June, the PRC gave Guinea 1,000 tons of long-grain rice, valued at $100,000. (S NOFORN-NOCONTRACT)

Madagascar. A Chinese medical team arrived in Madagascar in July to serve at the recently completed medical center at Vatomandry. The Chinese-built facility, which cost $350,000, contains a surgical block, a dental clinic, dispensary, and a mother and child care center. (U)

North Korea has been studying the possibility of a nickel extraction project at Moramanga. Pyongyang recently completed its only aid project in Malagasy—a youth palace at Tamatave. (U)

Moscow raised its 1974 credits to Madagascar by nearly $3 million, to more than $16 million, under a protocol signed in September. In August the USSR signed a commercial contract to deliver 1,000 tractors, valued at $3 million and donated 200 tractors and a YAK-40 aircraft valued at $2 million. During the quarter, Moscow also accelerated work on contracts for a cement works in Majunga, a radiobroadcasting station in Tulear, and a flour mill in Tamatave, all being financed under the expanded 1974 credit. (U)

Mozambique. East Germany, under a November 1977 general agreement, signed protocols in July to assist agricultural development, mineral exploration, and the construction of high-tension powerlines, a textile plant, and a truck assembly plant. East Germany also will provide equipment and technical services for developing a coal mine at Moatize. East Germany may have agreed to provide some long-term credits for the projects, partially repayable in Mozambican agricultural products and minerals. (U)

Hungary has shipped 50 buses to Maputo, reportedly raising Maputo's passenger transport capacity by 150 percent. (U)

Nigeria. China has offered to study reconstruction of the Nigerian railway systems, following preliminary work carried out in 1976. (S NOFORN-NOCONTRACT)

Czechoslovakia agreed to provide teachers, researchers, and experts to Nigeria under a September agreement. (U)

North Korean experts in Nigeria are working on flood and irrigation projects under an economic and technical agreement concluded [illegible] year. (U)

Nigeria has announced it will send 300 [illegible] dents to Polish universities and vocati[illegible] schools this year. Nigeria will pay cash for t[illegible] training, first offered under a March 1978 te[illegible] nical agreement. (U)

The USSR is reportedly eight to 10 month[illegible] behind schedule and is using outdated equipme[illegible] on the 800-km oil pipeline project in Nige[illegible] The commercial contract, concluded late[illegible] 1976, is valued at $135 million. (U)

Rwanda. China opened an economic and tr[illegible] exhibit in Kigali, the first trade exhibit [illegible] staged in Rwanda; more than 1,700 items [illegible] Chinese industry and agriculture were displa[illegible] (U)

Senegal. Poland signed an economic proto[illegible] in August covering cooperation in the chemi[illegible] industry (particularly phosphorous fertilize[illegible] food-processing industry, energy sector, and li[illegible] industry, as well as fisheries assistance for wh[illegible] Poland had already pledged $35 million. War[illegible] also has formed a partnership with a local firm[illegible] increase its trade with Senegal in chemical [illegible] dustry equipment and raw materials. Sene[illegible] one of Poland's largest black African trad[illegible] partners, purchased $3 million worth of Pol[illegible] goods in 1977. (U)

Somalia. A high-level Chinese delegation [illegible] tended ceremonies in Somalia in August to c[illegible] brate completion of a $67 million Chinese-b[illegible] highway from Beletuen to Burao. The 970 [illegible] road was financed under a 1970 credit agr[illegible] ment. While in Somalia, the Chinese offici[illegible] signed agreements for construction of a 385-k[illegible] highway between Borama and the Djibouti b[illegible] der, to cost approximately $20 million. Chine[illegible] crews that had recently completed the Beletu[illegible] Burao road reportedly have been shifted to [illegible] new project. The road will complement a hi[illegible] way between Hargeisa and Borama to be b[illegible] with Arab assistance. (S NOFOR[illegible] NOCONTRACT)

Sudan. Under a 1979 trade protocol, signed [illegible] September, China and Sudan plan to incre[illegible] trade by 30 percent, to $135 million. Only ab[illegible]

$15 million of China's imports will consist of cotton, in contrast to earlier agreements, under which cotton was Peking's major purchase. (U)

Tanzania. The USSR signed contracts in May to construct state farms for growing corn in the Ruvumu region and cotton in the Morogoro region. The projects, which cover 4,500 hectares and will cost $650,000, probably will be financied under an $18 million 1977 credit. These would be the first contracts to be signed under that credit. (U)

The PRC signed a protocol to the $75 million March 1974 agreement which calls for the construction of a party headquarters building, continued coal prospecting, and development of a 300,000-ton coal mine with associated power plant. China turned down a Tanzanian request to construct a rail line from Arusha to Musoma. (S NOFORN-NOCONTRACT)

Togo. Hungary has extended a $10 million contract for supplying phosphate mining equipment; 60 Hungarian technicians will be required to install the equipment. This is Togo's first major contract with Hungary. (U)

Uganda. Discussions between North Korea and Uganda on an economic and technical cooperation agreement reportedly are in their final stages. North Korea already is providing Kampala some technical assistance, mostly for medicine. (S NOFORN-NOCONTRACT)

Zaire. At the third meeting of a joint economic commission in August, Romania promised to study agriculture, fishing, forestry, mining, and pharmaceutical projects. In addition, Romania offered to assist in Zaire's next five-year plan (1981-85), including construction of a railroad and power plant. (S NOFORN-NOCONTRACT)

Zambia. According to the South African press, Chinese personnel have been brought back to Zambia to operate the Tan-Zam Railroad following the arrest of Zambian crews for theft. The railroad, officially handed over to Tanzanian-Zambian control in 1976, was to be staffed by 1,000 Chinese technicians for two years. As local personnel completed their training, the Chinese have been withdrawing their technicians. (U)

East Asia

Indonesia. Jakarta turned down a Romanian offer of $50 million in credits repayable in gold over a 10-year period with 6-percent interest. Romania wants to expand trade with Indonesia but is unwilling to extend longer term credits to accomplish this aim. Nor is Romania interested in Indonesian oil, citing high transport costs that would make the deals uneconomical. Romania had previously been studying development of the petrochemical industry on Batan Island, first proposed by Indonesia in 1975. (S NOFORN-NOCONTRACT)

Malaysia. Kuala Lumpur has made public its two-year-old decision not to go ahead with the Tembeling dam project, which the Russians have been negotiating for since 1972. Soviet feasibility studies for the project were completed in 1975. While the press has speculated that environmental factors prompted the decision, in fact the government was uneasy at the prospect of a large contingent of Soviets operating in a remote area. (C)

Philippines. A Bulgarian delegation is expected in Manila in November to sign a long-term economic and technical cooperation agreement that calls for the formation of a joint economic commission, first proposed by Bulgaria in 1975. (S NOFORN)

In July, the Philippines signed an agreement with China to buy 44 million barrels of Shengli crude over a five-year period. The new agreement, which calls for annual price negotiations, is valued at about $500 million at current prices. Manila will take delivery of 8.8 million barrels annually, about the same as in 1978, but well above the 1.8 million barrels of their first contract, signed in 1974. The pact moves the Philippines to second place, after Japan, among China's oil customers. (U)

The USSR reportedly offered to sell 7.3 million barrels of oil to the Philippines, to match the Chinese commitment, during the visit of First

Lady Imelda Marcos to Moscow. (S NOFORN-NOCONTRACT)

Singapore. A Hong Kong firm is negotiating for 733,000 barrels of Chinese Shengli crude for refining in Singapore. China is quoting prices of more than $13 a barrel, compared with recent "friendship prices" to the Philippines averaging less than $10 per barrel. If the deal is consummated, the Hong Kong firm hopes to form a new corporation to make more extensive use of Singapore refineries for processing Chinese crude. (S NOFORN)

During September discussions with the Polish Minister of Foreign Trade, Singapore agreed to consider a Polish offer of a joint venture for manufacturing machinery in order to expand their trade. Singapore also agreed to permit Polish fishing and merchant marine vessels to use Singapore's ship repair and harbor facilities. (S NOFORN-NOCONTRACT)

Thailand. China has agreed to provide 2.2 million barrels of diesel oil to Thailand over the next 18 months at $14.67 per barrel in return for 100,000 tons of corn, 50,000 tons of rubber, and other agricultural products. Earlier in the year, the two countries had agreed to revitalize their economic relations which had fallen off after deliveries under a 1975 rice-for-oil barter agreement had ended. In September, the two sides also set up a joint economic board to handle trade. (U)

Thailand signed trade agreements with Czechoslovakia, Hungary, and Romania during the third quarter. Bangkok's increased commercial contacts with Eastern Europe are pursuant to a decision taken late last year by the new Thai Government to expand trade with the Communist world. (U)

Europe

Malta. PRC Vice-Premier Keng Piao stopped over in Malta during a tour of African and Middle Eastern countries in July. No new agreements were signed, but Malta pressed hard for an increase in trade and for further orders from Malta's shipbuilding industry. China had previously orderd two oil tankers and is scheduled to build a drydock at Marsaxlokk. Malta has about $20 million left from a 1972 Chinese credit. (U

Latin America

Argentina. Moscow believes that deteriorating US-Argentine relations over human rights issues will provide new opportunities to expand economic relations with Buenos Aires. In particular the USSR intensified efforts to win a contract for supplying equipment to the Yacyreta hydroelectric project, turned down for financing by the US Export-Import Bank in July (although the Eximbank decision was reversed in September) Moscow has been pressing Argentina to permit Soviet participation in the project for several years. While Argentina's Minister of Economy reportedly favors more Soviet activity in Argentina, other officials hope to block Moscow's Yacyreta bid by obtaining loans elsewhere. In August the USSR promised Argentina two turbines, valued at about $15 million, without charge for the Salto Grande hydropower project for which Soviet credits have been extended During the quarter, the USSR also announced that it will provide two 310-MW turbogenerators for a thermal power plant at Bahia Blanca, and signed final agreements to perform the engineering studies on the Parana Medio hydropower project. (S NOFORN-NOCONTRACT)

Brazil. Shipments already have begun under the $10 million Chinese-Brazilian contracts concluded in July for the exchange of 250,000 tons of Brazilian iron ore for 1.4 million barrels of Chinese crude oil. This is China's first such sale in the Western Hemisphere and is being implemented under China's first formal trade agreement with Brazil, signed early this year. (U)

During the third quarter, Brazil signed three-year trade agreements with Bulgaria, East Germany, Hungary, and Poland. The East German agreement, valued at $1.2 billion, also carries $200 million of East German long-term credits for equipment purchases. The $500 million Polish agreement includes a coal-for-iron-ore barter deal while the $300 million Hungarian pact calls for an exchange of Brazilian manufactures and raw materials for Hungarian equipment. Brazil

has been making an effort to overcome the severe imbalances that have characterized its trade relations with Communist countries. According to Brazil, the Communist deficit reached a peak of $1.1 billion in 1976. (U)

Opposition from the General Staff of the Brazilian Armed Forces may result in Brazil's rejection of a $500 million Soviet offer for constructing the Porto Primavera power project. The military objects to Soviet plans for 250 technicians to work on the project. Moscow also has come under fire recently for delays in installing the first turbine at the Sobradinho hydroproject. The proffered credit for eight to 10 years, which would be repayable after a two-year grace with 4.5-percent interest, reportedly would be split evenly between equipment and civil construction costs and would cover about 40 percent of the project's $1.3 billion total cost. The Brazilian Government is seeking Western financing as an alternative to the Soviet offer. (S)

Chile. Santiago plans to cultivate closer relations with China and will request military equipment because of its failure to place orders for needed equipment in the West. China and Romania were the only Communist countries to retain their connections with Chile after the rightist coup in 1973. (S NOFORN-NOCONTRACT)

China has pursued its main interest in Chile—the import of Chilean copper—and has not pushed Santiago to use the $50 million of project credits it extended in 1972. (U)

Colombia. Bogota plans to increase sales to Eastern Europe by exchanging coffee for road-building machinery and equipment for energy projects, according to a July announcement. (U)

Guyana. In July, PRC Vice Premier Keng Piao arrived in Guyana as head of the highest level Chinese delegation ever to visit Guyana. Faster drawdowns on China's $30 million of outstanding credits topped the agenda, but no new contracts were announced. (U)

Haiti. China has offered economic assistance to Haiti on the condition that it consents to the establishment of full diplomatic relations with Peking. (S NOFORN-NOCONTRACT)

Honduras. In its first trade contract with Cuba in several years, Honduras bought 20,000 tons of cement for $1 million in July. Havana offered the best prices and delivery terms, according to Honduran officials. Other trade exchanges were also discussed, but no further contracts were signed. (U)

Jamaica. As a result of the visit of a Chinese Vice Premier to Jamaica in July, China signed final agreements to supply $8.5 million of machinery for a cotton-polyester textile plant at Old Harbour, where site preparation already is under way. The contract falls under a 1974 credit agreement, signed shortly after Jamaica established diplomatic relations with China. Peking also has promised agricultural assistance under the agreement. (C)

Czechoslovakia and Jamaica reportedly negotiated their first economic and technical agreement during the third quarter. The accord will be signed later this year. (U)

According to Hungarian officials, Jamaica has shelved plans to build a 600,000-metric ton alumina plant because of the island's precarious financial position. Two years ago, Hungary offered $150 million in credits for the $400 million plant, to be repaid in alumina. (C)

Mexico. A Chinese agricultural delegation arrived in Mexico in August for a seven-week study of corn cultivation techniques. (U)

Mexico is negotiating with the Soviets to buy eight or nine Soviet oil drilling rigs, reportedly for offshore exploration. Mexico has offered $4 million apiece for the drills against a Soviet price fixed at $5 million. Meanwhile, Mexican sources reported that the two countries were near agreement on the Mexican purchase of YAK-40 aircraft, which would be used to serve isolated areas in south and southeast Mexico. (S NOFORN-NOCONTRACT)

Panama. During a tour that took a Panamanian economic mission to Czechoslovakia, East Germany, Poland, and the USSR, the Panama-

nians received several offers of development assistance and signed $10 million worth of contracts to sell agricultural products. Czechoslovakia negotiated a technical cooperation agreement to be signed next year and Poland expressed interest in installing a shipyard at the new fishing port of Vacamonte, currently under construction. Panama also reported that the USSR promised to cooperate in the construction of a hydroelectric plant in Bocas del Toro, first studied last year. East European countries offered 100 technical scholarships to Panamanian students for the 1978/79 school year. Panama has steadily increased its contracts with Communist countries since the beginning of 1978, and plans to open diplomatic missions in East European countries soon. (C)

Uruguay. Hungary offered to increase trade credits to Uruguay by $10 million during a visit of the Hungarian Deputy Trade Minister to Montevideo in late September. (U)

Venezuela. Venezuela discussed expanding trade with Czechoslovakia and Poland during the quarter. Poland has approached Caracas on an oil barter deal, a proposal Venezuela turned down because it can easily sell oil for hard currency. (C)

In July, Venezuela inaugurated oil deliveries to Cuba under a quadrilateral oil agreement which calls for Caracas to provide 10,000 b/d of crude oil to Cuba in turn for Soviet delivery of an equal amount of crude to Venezuelan customers in Spain. The one-year agreement calls for Spanish hard currency payments to Venezuela for the Soviet oil and Cuban settlement with the USSR for Venezuela's shipments. The deal has been under negotiation for two years. (C)

Middle East

General. The OPEC Secretary-General, visiting Prague at the invitation of the Czech Minister of Foreign Trade, discussed possible exchanges of OPEC oil for Czech industrial products. (U)

Abu Dhabi. Abu Dhabi agreed in August to permit East Germany to open its first trade office, similar to a Romanian office recently opened in Dubai. East Germany agreed to provide doctors to staff Abu Dhabi hospitals. (S NOFORN-NOCONTRACT)

Greece. A shipment of Greek tobacco inaugurated Greek-Chinese trade under agreements signed earlier this year in Peking. Greece also hosted the PRC Foreign Minister in Athens in September. (U)

As a result of the visit of Greek Foreign Minister Rallis to Moscow, the USSR has agreed to study the possible establishment of an alumina plant in Greece whose output would go to the USSR, the use of Greek shipyards for repair and construction of Soviet vessels, technical assistance for a nuclear power plant, and the sale of electricity and natural gas to Greece. The USSR was awarded a contract to supply a 300 MW oil-fired power plant, even though Athens is reported unhappy with a 200-MW unit installed earlier by the Soviets. Both sides have been interested in improving their economic and political relationships to balance Moscow's previous concentration on Turkey. (C)

Egypt. Romania completed installation of a thermal power plant to supply a phosphate complex being built at Hamrawein by Romania under a $40 million credit. The power plant also will supply the new city of Hamrawein. (U)

Soviet-Egyptian trade reportedly is proceeding smoothly this year despite the absence of a trade protocol. Except for cotton, individual contracts have been signed on the basis of goods prescribed in last year's protocol. (C)

Iran. Iran signed a $410 million contract with the USSR, Hungary, and Poland for the construction of an 800-MW thermal power plant near Isfahan. The USSR will provide the bulk of the equipment, while Poland will be responsible for construction work. The financial terms of the contract were not announced. (U)

Iran is negotiating the purchase of 20,000 tractors, railcars, and powerlines from Romania. According to the Iranian sources, trade is expected to reach $1 billion annually by 1980, up from about $600 million last year. Romania, which began importing oil from Iran in 1969

buys about 60,000 b/d of Iranian crude annually. (U)

Iraq. In July, China handed over a wool washing and spinning mill at Kifri built under a $45 million credit extended in June 1971. (U)

Iraq signed cooperation agreements with Czechoslovakia and Romania in July which call for expanding economic ties. The larger Romanian agreement covers the establishment of state farms and fisheries projects in Iraq and participation in Iraqi oil projects, including erection of a 150,000-b/d refinery. (U)

Poland signed an $11 million contract for delivery of six irrigation pumping stations, to be installed within three years. Poland has been designing irrigation projects and experimental farms for Iraq under contracts signed early in 1977. (U)

Moscow completed the modernization of the Tuwaitha research reactor, originally provided to Iraq as a grant in 1967. The two countries also were negotiating a contract to train 120 Iraqi petrochemical technicians in the USSR, to help man an unidentified complex. (S NOFORN-NOCONTRACT)

Jordan. In August, the Jordanian Council of Ministers approved a trade agreement with China signed in July. The provisions of the agreement, the first between the two countries, were not made public. (C)

Poland and Jordan signed their first medical cooperation agreement in Warsaw in late September, calling for Polish doctors to serve in Jordan and for increased medical scholarships for Jordanians in Poland. (U)

A strike by Romanian workers at the Zarqa refinery expansion project site is expected to affect the September 1978 completion date. The reason for the work stoppage is not known. (S NOFORN)

Kuwait. China proposes to send up to 4,500 workers to Kuwait to work on a 3,000-unit housing project and stadium being constructed in Kuwait by China on a commercial basis. This is China's first commercial development effort in the Third World, all other Chinese projects having been financed under aid agreements. An agreement on project construction is scheduled for ratification at the end of the year. (S NOFORN-NOCONTRACT)

South Yemen. In September, Cuba announced that it is providing 10,000 tons of sugar, valued at $1.5 million, free of charge to South Yemen. In July, about 80 Bulgarian personnel arrived in Aden to help reorganize the ruling wing of the National Front. (U)

The South Yemen economy reportedly has been saved from collapse, following Arab sanctions, by aid from Communist countries. We are not able to confirm a report by a diplomat in South Yemen that the USSR has promised to deliver nearly $800 million in economic and military aid in five years beginning in 1977. Earlier this year the USSR had committed $85 million in new economic aid to Aden, and in September promised to ship several thousand tons of food and other commodities. Aden has requested Council for Economic Assistance (CEMA) membership and has called on all Communist governments to replace Arab aid. (S)

Syria. East Germany has offered Syria $130 million to finance two cement plants. (U)

The 120,000-b/d Banias oil refinery began trial operations in July. The $400 million plant, Romania's largest project in the Third World, is expected to fully cover Syria's domestic needs for gas, fuel oil, and other refined products and to yield a surplus for export. (U)

Turkey. Following a visit by a Chinese trade delegation to Ankara in September, Turkey's Minister of Commerce announced that Peking had offered to supply Turkey 7.3 million barrels of crude oil in exchange for agricultural and industrial projects. (U)

During the third quarter, Turkey received nearly $300 million in export credits from East European countries. Romania will provide $80 million in seven-year, 7-percent credits annually in the next three years under its trade agreement with Turkey. The $50 million in credits provided

by East Germany to finance German exports are said to be long term. (U)

As scheduled, delegations from the USSR and Turkey initialed a three-year agreement in September which calls for their annual trade exchange to rise to $460 million by 1980. The final agreement is to be signed later. The USSR will barter 60,000 b/d of crude oil annually for Turkish wheat; other trade will be settled in hard currency. The new agreement was first negotiated during Prime Minister Ecevit's visit to Moscow in June. (C)

South Asia

Afghanistan. Bulgaria signed a protocol in September to participate in the design and construction of roads, bridges, bus stations, and airports in Afghanistan. In addition, the Bulgarian road transport enterprise will open an office in Kabul to take charge of Afghanistan's import and export freight. (U)

Kabul inquired about membership in CEMA, hoping to take advantage of credits CEMA has deposited in a special fund for developing countries. The USSR, however, has advised Afghani officials to concentrate on cementing bilateral ties with Communist states rather than pursuing a CEMA relationship. Meanwhile, Afghanistan continued to announce major contracts with the USSR, and there were reports that the number of Soviet civilian and military advisers had grown to 3,000 by mid-September. Major contracts announced during the third quarter included:

- Construction of a $46.5 million bridge to accommodate rail and vehicle traffic over the Amu Darya river at Hairatan. The bridge was designed in 1976 and will be financed under a 1972 agreement. This will be the first direct connection between Afghanistan and the USSR.
- Supply of $23 million worth of petroleum equipment during 1979 and 1980.
- A $5.3 million renovation of the Sher Khan river port.
- Design of a 300,000-ton fertilizer plant n the existing Soviet built plant at Mazar Sharif.
- A fluorite mining agreement.

Existing credits can cover the foreign exchan costs of all these agreements. (U)

Bangladesh. Romania has agreed to help B gladesh set up food processing plants, tanne and building materials factories with $45 mil in credits left over from a 1974 agreem Studies are expected to begin by January. (

Bangladesh signed a contract to buy 43 tons of US wheat for repayment to the USSR a third installment on Moscow's 1973 w loan. Dacca paid the United States $6.2 mil in foreign exchange for the wheat. (U)

India. No new economic agreements w announced as the result of the Foreign Minis visit to Moscow in September. Outstanding q tions—such as the amount of Soviet aid to provided the Indian steel industry, the us $340 million in new credits provided last year Indian request for more Soviet crude oil, changes in the rupee/ruble exchange rate - been referred to working groups for negotiat The two sides expect to sign a new five-y trade agreement early in 1979. (C)

Pakistan. With the completion of the K korakom highway, China has agreed to Pakist requests to build a road linking Skardu, Pakistan, and Yarkand, in China, and an air at Skardu. The latter is planned under a agreement to begin air service between Ska and Sinkiang. China provided more than $ million in grant assistance for the Karako highway and presumably will also undertake new projects without charge to Pakistan beca of strategic considerations. (C)

Pakistan reportedly has received new com ments of $225 million from the USSR to c plete the Karachi steel mill, for which the US has already provided $430 million. About million in unused 1966 credits are included in total. A commercial credit of unspecified va (repayable in steel over five years at 6 per

beginning in 1974) also was extended. In addition, the Soviets deferred payments on credits extended for building various sections of the mill until one year after the section has gone into production. According to one source, repayment of the new credits will involve 200,000 tons of pig iron and steel billets and 70,000 tons of rolled steel annually for an unspecified period. Both Pakistan and the USSR expressed satisfaction with the new agreement, but Pakistan has come under increasing fire from other aid donors for diverting scarce resources to the steel plant, while requesting budgetary support and rescheduling agreements from the West. (C)

Sri Lanka. According to a Sri Lankan Embassy official in Peking, China has agreed to provide $60 million in assistance to the Mahaweli Ganga irrigation project in which several Western governments and the USSR are expected to participate. China will construct roads, housing, schools, and public buildings for the project, the centerpiece of Colombo's agricultural development scheme. New credits will be required, as previous Chinese assistance has all been allocated. The USSR reportedly is also considering credits in the $60 million range for the project, but the USSR may divert assistance from other planned projects, such as the $57 million Samenalawewa hydropower project, where work has scarcely begun. (C)

Communist Military Transactions With LDCs

North Africa

Algeria. The Algerian Government has arranged for the delivery from Bulgaria of a large amount of ammunition, under a $100 million agreement signed in May. The agreement is Bulgaria's largest single military contract with a Third World country. (S NOFORN-NOCONTRACT)

Algeria has signed a contract with the Soviet Union for up to two squadrons of MIG-25 Foxbat aircraft, possibly in exchange for expanded Soviet port rights in Algeria. To date Libya is the only foreign country to receive the Soviet Foxbat. Algeria is also said to be awaiting delivery of advanced T-72 tanks, also being expected by Syria and India. (S NOFORN-NOCONTRACT)

Sub-Saharan Africa

Angola. During the third quarter, Angola continued to receive moderate amounts of Communist arms and equipment. The USSR delivered three AN-26 short-haul transport aircraft in July—the first 1978 deliveries of this $2.6 million plane—and Romania sent two Alouette III helicopters under a 1977 accord. The USSR, Czechoslovakia, East Germany, and Poland provided nearly 700 military vehicles. Luanda also signed a series of agreements with Hungary for about $2 million worth of communications equipment. Some of this hardware—especially the vehicles and communications equipment—no doubt will be used to support the training and subsequent movement of Rhodesian guerrillas to Zambia. (S NOFORN-NOCONTRACT)

Tanzania. Soviet military deliveries to Tanzania during the quarter consisted of five armored personnel carriers, several hundred tons of arms (including an unknown number of 130-millimeter artillery pieces and BM-21 rocket launchers), ammunition, military vehicles, and nonlethal equipment. The bulk of this hardware was slated for transshipment to Zimbabwe African People's Union (ZAPU) guerrilla forces in Zambia. Dar es Salaam also negotiated an extension to a 1977 military accord with China for additional arms to the Tanzanian Air Force and Navy and reached agreement on the continuing presence of about 40 advisers who are assigned to train Zimbabwe African National Union (ZANU) guerrillas. (S NOFORN-NOCONTRACT)

Zambia. Zambia turned to the USSR to provide equipment for strengthening its defensive capabilities. The most important delivery occurred in September, when at least 12 122-mm artillery pieces and about 100 antiaircraft missiles arrived in Tanzania for overland movement to Zambia. These and earlier shipments gave substance to President Kaunda's threat (last July) to accept Soviet aid to help defend Zambia's borders against Rhodesia. We expect addi-

tional Soviet deliveries in upcoming months. (S NOFORN-NOCONTRACT)

Middle East

Iraq. The Iraqi Air Force apparently received its second and third IL-76 long-range jet transport aircraft in late September under a $98 million contract for an unspecified number of IL-76s signed with Moscow in October 1977. The first IL-76 arrived in August along with an instructor crew of 10 Soviets. The deliveries to Iraq mark the first known Soviet exports of the 5,000-mile range IL-76s which first went into service with Soviet forces in the mid-1970s. Baghdad may have purchased the aircraft to provide more sophisticated logistical support for its recent acquisition of a substantial number of French Mirage F-1 jet fighter aircraft, helicopters, and amored cars. Iraq's air transport capability has been limited until now to 21 medium- and short-range aircraft. (S NOFORN)

North Yemen. North Yemen received 30 T-54 tanks from Poland during early October representing the final delivery of the 50 tanks negotiated by the late President Ghashmi. The initial installment of 20 tanks arrived in June on the day Ghashmi was assassinated. (S)

South Asia

India. India also may have signed an agreement with Moscow for 60 to 70 T-72 tanks in a deal that has been rumored since last year. Thus far, this weapon has been exported only to Warsaw Pact members. (S NOFORN-NOCONTRACT)

Pakistan. In September, Pakistan took delivery of 16 Chinese F-6 jet fighters (the equivalent of the Soviet MIG-19) purchased in first half of 1976. The delivery by air of the F-6s suggests that the number of these planes in the Pakistan Air Force which are operational has dropped to unacceptably low levels, probably because of their extremely high maintenance requirements. (S NOFORN)